

# APPEARANCE DISCRIMINATION AND SMALL BUSINESS

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## Abstract

*This paper explores the issue of appearance discrimination in employment. It starts with an assessment of how such discrimination occurs and then examines the impact of such discrimination on income and careers. Subsequent sections study the kinds of litigation based on height, weight, and appearance discrimination and how it can potentially embroil small businesses. into lawsuits. The article concludes with some practical guidelines for small businesses.*

## Introduction

From infancy we are taught to discriminate between different objects. We are taught that some objects are harmful and some are toys. We learn to discern between our parents, family, friends, and strangers. These perceptual skills are honed as we mature to the point that many of us make decisions about an individual's abilities and talents based on their appearance. Unfortunately, many of us tend to believe that there is an objective reality and that all of our perceptions are accurate in understanding that reality. However, we all act and make decisions based on an interpretation of our subjective reality. This subjective reality is based on our thoughts, feelings, and

experiences. We are often unaware of judgments and stereotyping we do at the subconscious level, and even when we are aware of our biases, we justify our behavior by using false attributions. This stereotyping is "to hold a belief that a person fits within a particular category and that all persons within the category are alike" (Estrin, 1996, p. 70). The question then becomes the extent of the impact of appearance stereotyping on individuals' careers and incomes? Another question is what employers can do to better educate themselves to minimize such discrimination in the workplace.

This paper examines the issues involved in appearance discrimination in the workplace from psychological, social, and legal perspectives. Further, we provide recommendation to employers to better understand the issues and to be proactive in avoiding possible litigations.

## Why this is an issue

In today's business world, appearance matters. It is the focus of many books and self-help seminars. Employers often believe that an employee with a professional, clean, and neat appearance an make the difference in closing an important deal or make a sale. Many employers believe that employees who do not look like they can take care of themselves will not elicit confidence that they can take care of a potential

customer's business (Fowler-Hermes, 2001). They often turn down qualified candidates simply because they do not "look the part," and if they do not look the part, they are rarely given the opportunity to demonstrate their competence (Voros, 2002).

Appearance can impact one's career and income potential. A survey by Esther Rothblum of 445 respondents (80 percent of the respondents were 20 percent overweight) found that 40 percent of the overweight males and 60 percent of the overweight females reported that they had not been hired for some jobs because of their weight (Martin, 1994). A survey by Stephen Gottmaker found that of 10,039 randomly selected young people, overweight women with weight above the 95th percentile for their age and sex had household incomes \$6,710 lower than did women in the non-overweight group. The study found that the male income differences for overweight men were much smaller. In addition, they found that height was a significant predictor of earnings (Martin, 1994).

Stereotypes about fat people are deeply entrenched in this culture. The stereotype is that since fat people are unable to control themselves they could not control other people and therefore would not make good managers (Fowler-Hermes, 1994). The stereotype that fat employees are sick more often is incorrect. While being more than 30 percent overweight does increase the risk of diabetes and heart disease, many other people have less conspicuous health conditions. Even smokers, who have greater health risks, encounter less prejudice (Fraser, 1994).

Unfortunately these stereotypes about fat people find their way into employment decisions. An interviewer at

a major personnel agency says that employers implicitly instruct her to not send fat interviewees. They use code words such as "We like people who match our culture" (Fraser, 1994).

Similarly, stereotypes about attractiveness are also entrenched in this culture. Two researchers who followed the careers of 2,000 law school graduates measured attractiveness on a scale of one to five. Five years after graduation, those ranked in the top third on attractiveness were earning 9 percent more on average than those in the bottom third. After 15 years, this gap had widened to 13 percent (Cohen, 1996). An earlier study of 7,000 people found that good looks also affect income. While both studies suffer from subjective definitions of "attractiveness" they still raise important questions (Cohen, 1996).

Attractiveness significantly contributes to success. The stereotype is that attractive people have higher levels of intelligence, education, and overall capability. They are assumed to be more effective in influencing others. Attractive people generally have more employment opportunities and earn 10 to 15 percent more than unattractive persons (Fowler-Hermes, 2001).

## **Legal Issues**

The previous sections have examined why this type of discrimination occurs and why it is an issue. Most small business owners and managers are not aware that the current trend in civil rights litigation can make them liable for discrimination on the basis of appearance. The next sections examine the legal issues, how businesses can become entangled in these issues, and ends with some advice for small businesses to avoid costly and damaging litigation.

Employees can bring Title VII suits alleging that they have been discriminated against on the basis of characteristics that are legally protected. Title VII only bars employer discrimination on the basis of sex, race, religion, color or national ancestry (religion and age were added in other laws). It does not mention height, weight, or appearance. The trend started with *Phillips v. Martin Marietta* where an employee argued that her appearance lead the employer to discriminate against her on the basis of her sex (FowlerHermes, 2001). Thus began gender plus issues, which do come under Title VII. By tying an unprotected physical characteristic to race, sex, age, religion, national origin or disability, employees are bringing appearance via Title VII into court. The following sections explain the use of appearance and sex to bring weight issues to court, appearance and sex to allow males to bring jewelry or long hair issues to court, and religion and appearance to bring facial hair and tattoos to court.

#### ***Appearance based on Weight and Sex Claims***

Three major airlines have settled or lost suits with their female flight attendants over weight standards. US Air agreed to a \$90,000 settlement, agreed to reinstate four attendants who were fired or suspended because of their weight, and gave hiring preferences to twenty female applicants who were previously rejected because of their weight (Brady, 1994). The American Airlines manual said that an attendant's silhouette should be firm, free of bulges, rolls, or paunches. In a suit brought by the EEOC, the agency argued that females gain weight as they age so that such policies violate both age and sex civil

rights (Seligman, 1991). United attempted to use standardized insurance industry tables that specify age and weight guidelines. However the Ninth Circuit upheld the lower court ruling that the policy was discriminatory on its face because United used a standard based on large frames for men and medium frames for women thus creating sex discrimination on the face of the policy (*Frank v. United Airlines*, 2000).

Given these cases rulings it is not clear that any airline weight standard would work. Consequently, US Air only uses a performance standard of how easily someone can move down the passenger aisles and how quickly they can move through the emergency doors (Brady, 1994).

Non-airline companies have won inost sex and appearance based on weight suits if they have consistent policies that are uniformly applied across the sexes. An example is a telemarketer who was excellent at her job doing inside telemarketing but was denied a promotion to outside sales where she would have to meet the public. She alleged sex discrimination on the grounds that overweight females were not given the same treatment as overweight males. The court ruled that while sex and weight could form the basis for a possible Title VII claim, in this case she had not proven that the company treated overweight men differently than overweight women (*Marks v. National Communications Services*, 1999).

#### ***Males alleging Appearance and Sex Discrimination***

Similarly males are not winning court suits alleging reverse discrimination by company policies that are clear and uniformly applied across the sexes. For example, a company won a suit by a male

employee who was discharged for wearing an earring to work in violation of the company's dress code. The employer's dress code for men differed from the dress code for women in that it prohibited men from wearing earrings. Based on this differential treatment of the sexes, the male employee sued for reverse sex discrimination. The court ruled that the company's policy consistently established professional standards even though they allowed for accepted gender based differences. Such gender-based differences are not discriminatory as long as they conform to generally hold traditional or customary practices for men and women. (Fowler-Hennes, 2001).

### ***Appearance and Religion Claims***

A number of cases involve appearance issues that raise claims of religious discrimination. These claims are easier to bring because the courts only require that the religious beliefs be strongly held. In most cases a history of religious practices, or a history of behavior based on religious beliefs is sufficient to raise a claim. However, even if the belief is strongly held and thus raises a claim, the courts have held employers to a lesser standard of accommodation. In most cases the employer has to attempt to accommodate the employee but is not required to hire additional workers, inconvenience other workers, or pay more than a minimal cost of accommodation. An example is the Second Circuit's upholding an employer's refusal to allow an employee to wear a beard for religious reasons. The individual came to work unannounced with a beard and had never previously indicated to his employer that he held such religious beliefs. The court did not believe he had substantiated the

existence of a strongly held belief. (Rosenberg, 2002). Similarly a court upheld the company's attempt to have an employee cover up a tattoo depicting a hooded figure and a burning cross which the employee alleges resulted from his religious beliefs in the KKK (*Swartzentruber v. Gunite Corporation, 2000*).

The Third Circuit in *Police Newark Lodge v. City of Newark* did not uphold the police department's policy against beards where an employee asked to wear a beard for religious reasons. The court argued that the City allowed black officers with pseudofolliculus barbe to wear beards, which was a secular reason. Because the city allowed exceptions for a secular reason it had to allow for a religious exception (*Police Newark Lodge No. 12 v. City of Newark, 2001*). This case occurred in the public sector, which is under special scrutiny from the free exercise clause of the constitution therefore, it does not apply to private employers.

### ***Appearance and Race Discrimination***

#### ***Males with Beards***

Court rulings with respect to hair styles and facial hair are usually won by those employers who have safety concerns or have a policy on grooming and appearance that is disseminated to its employees and consistently enforced. For example a district court upheld a United Parcel Service (UPS) appearance policy where UPS fired a driver for refusing to comply. The black employee with dreadlocks argued that the company policy disproportionately affected black employees (Hamblett, 2002). The judge ruled that the plaintiff had not shown how the policy adversely affected blacks as opposed to other groups.

The federal courts have consistently upheld company hair length policies. Two white men lost their case where they argued that their employer engaged in reverse discrimination because it allowed females to wear longer hair than men (*Rivera and Karwowski v. Trump Plaza Hotel and Casino, 1997*). A black female lost her case where she tried to argue that she belonged to a subset of African Americans who wore traditional African American attire and that replacing her with another black female who wore traditional corporate attire was still disparate impact on her subgroup (*McManus v. MCI Communications, 2000*).

Companies run into difficulty where the policy is not consistently enforced. For example, the court upheld the case of a black female who brought pictures of hair styles into work to get pre-approval and was still reprimanded. The company had not enforced its policy of hair length against five white women with similar hair styles (*Hollins v. Atlantic Company, 1999*).

### **What employers should and should not do**

**A well written policy on appearance.** The first line of defense is a well written policy that sets out the small business's appearance standards. These policies should reflect the business's and the customers' expectations and be sufficiently justified.

**Consistent Enforcement.** Next the small business needs to consistently enforce those standards across sexes and races (Fowler-Hermes, 2001). The only exceptions the business should make should be for clearly substantiated religious reasons. In these cases the

small business has to attempt an accommodation.

**Safety Issues.** For those jobs where the small business has safety concerns, its dress code can reflect those needs. For example, because safety was an issue, the fire departments were able to insist on males being clean shaven. Similarly, for jobs requiring the employee to work around machinery, the employer is justified in requiring dress that would be safe such as disallowing loose fitting clothing or requiring shoes with toe guards.

**A Policy on Religion.** As part of the overall policy the small business should require an individual who requests an exception to document how and why that faith requires an exception.

**A Policy on Height and Weight.** Currently the Civil Rights Act does not cover height and weight. However, it is the opinion of the authors that more employees will litigate over these issues and that more courts will rule for the employee unless the small business has a very good reason or business necessity for the standard. Thus while the small business could legitimately discriminate on these basis with an adequate reason, the authors suggest extreme caution.

### **Conclusion**

It is the authors' opinion that this issue will grow in importance and in the number of lawsuits. While only one state and the District of Columbia have such statues covering height, weight, and appearance, the number of federal cases shows that such suits are sometimes successful under Title VII of the Civil Rights Act. As other employees see this trend, they will attempt the same arguments.

# EMPLOYER WORKFORCE DEVELOPMENT INITIATIVE

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## Abstract

In order to understand the Workforce Development System, this paper briefly reviews the history of the current workforce development system and discusses a model and its initiatives that have been developed and are evolving. The model identifies a national and local strategy for an employer-driven workforce development system. The goal is to start a discussion on how higher education can be involved in research, community partnership, and programmatic activities.

## Introduction

In order to understand the Workforce Development System, this paper briefly reviews the history of the current workforce development system and discusses a model and its initiatives that have been developed and are evolving. The model demonstrates a national and local strategy for an employer-driven workforce development system. The goal is to start a discussion on how higher education can be involved in research, community partnership, and programmatic activities.

## The Changing Challenges of Workforce Development

Since the 1960s, when the Manpower Development and Training Act (MDTA) created the public workforce-development (WFD) system, those concerned with helping the disadvantaged to find success in the labor market have hoped for the sustained and systematic involvement of employers especially those with good jobs and family

supporting career potential - in that system. In the subsequent decades, with some notable exceptions, that hope has not been adequately realized. The commonly cited reasons include:

- In the loose labor markets that prevailed until the mid-1990s, most employers did not need to involve themselves deeply with the public WFD system. They could meet their labor needs adequately through other labor market mechanisms.
- The public WFD system was focused on the disadvantaged, who had often had multiple barriers to successful employment. Further, the public WFD system generally offered only short-term employment preparation, which many employers, especially those with "good" jobs requiring higher skills, found inadequate. Finally, employers complained of bureaucracy, politics, and poor quality programs in the public WFD system.

There may be another reason: there was scant effort to reach out to and systematically structure the engagement of the employer community in the WFD system, in particular, by building on the natural peer structures of employer associations in local communities. What was needed - and lacking - was an effort to develop an American equivalent of the role of *Kammers*, or "chambers" that systematically engage employers in WFD in parts of Europe.

In loose labor markets, such an effort was not likely to succeed, but in the mid-1990s unemployment rates plunged to levels not seen

in generations as the economy entered an almost unprecedented period of prolonged expansion. With labor shortages reaching crisis proportions, employers -and their associations - began to seek ways of reaching out to "non-traditional populations" of many kinds, including the poverty-stricken who were previously routinely screened out of consideration. This presented a window of opportunity of historic proportions to "build employers" into the WFD system. Even in the current economic pause, that window generally remains open, as unemployment has edged only slightly upwards. Moreover, the need for new structures to involve employers in WFD for entry-level workers is built into both the economy and its demographics - we need to restock an aging workforce and re-skill all workers for increasingly technologically driven work in the face of global competition. Developing a more effective employer role, especially for small businesses, in WFD is thus important on many dimensions.

### **A National Response**

The National Association of Manufacturers (NAM) is the nation's largest multi-industry trade association, representing 14,000 member companies (including 10,000 small and mid-sized manufacturers) and 350 member associations serving manufacturers and employees in every industrial sector and all 50 states. The 350 member associations of the NAM are divided into three major groups:

- The Employer Association Group (EAG) comprises 69 independent local and regional employer and manufacturing associations representing more than 50,000 individual employers. These local and regional affiliates offer a broad range of human-resource services generally aimed at managers, supervisors and other personnel.
- The State Associations Group (SAG) comprises 47 associations functioning at

the state level and enrolling more than 117,000 companies. These associations' activities focus largely on legislation and policy setting at the state and national levels.

- The Associations Council (AC) includes more than 220 manufacturing trade associations representing more than 60,000 firms in every manufacturing sector. These sectoral associations and the council are concerned with legislative, regulatory, economic and education policy matters that affect their interests.

It is important to note that the NAM body of associations comprises both *sectoral* and *general employer membership* bodies. The SAG and AC members generally represent manufacturers and the sub-sectors of manufacturing; the EAG members usually serve diverse employers in all sectors in a region (as many as half their members may be from public, nonprofit, and service sectors who join EAG associations to benefit from the human resource services they provide).

The NAM has traditionally focused on legislation and policy issues at the national level. In the mid-1990s, however, it established the Center for Workforce Success (CWS) in its nonprofit, 501c(3) affiliate, the Manufacturing Institute. The mission of CWS is to find and promote workforce solutions for manufacturers in a global economy and to make manufacturing a preferred career choice for Americans in the 21st century. This is a new and still-developing set of activities for the NAM.

From the outset, much (though not all) of CWS's work has focused on identifying and developing the role that businesses and employer associations can play in workforce development, especially but not only at the lower levels of internal labor markets. CWS has stressed the critical potential of employer



associations as *workforce development intermediaries* and outlined that role in its publication, *Making the Connections: The Role of Employer Associations in Workforce Development* (see attached). CWS has also produced two series of case studies on associations that are beginning to play this intermediary role -one on five associations attempting to enroll small manufacturers in School-to-Career programs and the other on five innovative efforts by employers and associations to reach into inner-city poverty populations to develop productive workers.

CWS's work has focused on promoting manufacturers' involvement in school-to-career activities and on developing the employer association WFD intermediary role. *Workforce Innovation Networks (WINs)* is in its fourth year as a partnership of CWS/NAM; the Center for Workforce Preparation of the U.S. Chamber of Commerce; and Jobs or the Future (JFF), a national non-profit policy, advocacy, and demonstration organization headquartered in Boston. WINs has been funded to date by The Ford Foundation, the Annie E. Casey Foundation, and the John D. and Catherine T. MacArthur Foundation. WINs has several programmatic elements all aimed at fostering the employer association WFD intermediary role, chiefly among *general membership* employer associations (e.g., NAM's EAG and some SAG associations and local chambers of commerce).

WINs is presently mounting a new program initiative. Each of the WINs partners is mounting two or three intense demonstration projects:

- CWS/NAM is mounting three demonstration projects to explore the ability of employer association WFD intermediaries to assist member firms to retain and advance disadvantaged entry-level workers. In addition, CWS is strategically exploring ways to further

develop the WFD intermediary role of the NAM's 220-plus *sectoral* associations, which represent a broad range of career possibilities, generally with family-supporting wages and full benefits.

- The Center for Workforce Preparation will assist three local chambers to improve the governance and performance of local Workforce Investment Boards.
- JFF will work with two or three associations to demonstrate a "skill supply chain" model that will move low wage, low-skill workers through a sequence of jobs to develop skills and higher earning power.

## **A Local Response**

The American Society of Employers (ASE) was established in 1902 as the Employers Association of Detroit. In 1987, the name was changed to the American Society of Employers. Today, ASE services 1,100 member companies in 35 counties in the state of Michigan. ASE offers its membership a full range of programs and services in such areas as research, surveys, training (public and contract), government affairs, reference checking, assessment and testing, employee opinion surveys, job recruitment, labor relation's services, and supplemental HR services. In January 1995, ASE established a subsidiary company, HR Management Group, which provides the management consulting and organization development services. The newest entity, the ASE Educational Foundation, was established in 1997. The goal is to assist businesses in developing and maintaining a qualified workforce through efficient and effective programs and services.

ASE's position statement on Education and Workforce Development states that Michigan's employer community has a crucial

role and inherent responsibility in the formulation and implementation of local, state, and federal education and workforce development programs that are designed to improve the quality of the local and state workforce, while increasing the productivity and competitiveness of member companies. Programs which ultimately reduce the cost associated with recruiting, selecting, and training new workers; develop a high quality, diverse workforce; improve the skill and employability levels of students; attain higher levels of productivity; improve performance levels of incumbent workers; and meet the demands for new skills required by rapid technological changes are to be commended and supported by the employer community. Finally, ASE believes that to achieve these goals, collaborative efforts between employers and other stakeholders, including school systems, labor and public sector organizations, parents, students, and state, federal and local leaders, must be further developed and encouraged.

### ***Planning Process and Local Need***

The competition for a skilled workforce has increased rapidly in the Detroit area with the economic development and the impending construction of the casinos, stadiums and airport expansion. However, the shortage of qualified, entry-level technicians is perhaps the most critical long-term problem facing the region's manufacturing firms. In the state of Michigan alone, the Big 3 estimate a need for 100,000 skilled workers.

Manufacturing employers have consistently increased the level of advanced technology processes and systems within their businesses over the last two decades. This has increased the need for a potential labor force able to adapt to and work effectively within these processes and systems. The pace of technological change has also increased dramatically. This has caused a greater and greater need for employees not only able to

master current technology, but also able to learn new technologies in shorter and shorter time spans. New and existing workforce capable advanced technology workers are at a premium today. As a result, the existing workforce ability to work in these dynamic business environments has been rapidly depleted. The shrinking labor market problem is increasing in severity causing most employers to take a long hard look before opening new urban operations. While this problem is particularly acute in urban areas, it has been identified as a strategic weakness of the US Midwest.

At the same time, high-technology work has been shrinking within urban areas in particular. Fewer and fewer jobs, whether entry level or semi-skilled, exist within the geographic reach of local residents. Further compounding this problem is the fact that urban residents in particular have not been able to keep pace with the changing needs of a diverse population. As a result, the lack of high technology urban jobs and access to high-quality technology education have created a skills and experience gap for urban residents that represent a potential workforce for the advanced technology workplace.

It is with this gap in mind that the notions of an educational and work experience "bridge" to advanced technology work become clear. Most under-prepared potential technology workers need a bridge to cross over the learning and experience gap that has developed. Efforts to bridge this growing gap independently by education, government and business has only met partial success in the past. Businesses open in the city but they must seek out a workforce from suburban areas. Government creates tax incentives for urban areas that go under-utilized. Schools scan for economically driven technology program needs, but find the potential number of new students too low in relation to the costs associated with new program start-up. Front-line supervisors lack the skills to

adequately supervise and mentor new employees from a diverse population, resulting in high turnover and lower productivity. These forces led to the creation of a model education and training program that can be duplicated.

### ***Vision of the Future Long-term, Sustainable Employer and Association Role***

This project was the first step in the process of integrating ASE into a community-wide initiative that increased its capacity to bridge the gap between employers' and community's needs. It began by linking community-based services with the employer base from ASE's membership. Training expanded for incumbent and new employees addressing the shortage of qualified, entry-level technicians available for the region's manufacturing firms. The project also served as a link between School to Work initiatives in the school systems and Street To Work programs for out of school populations. The end result was to establish ASE as a permanent resource for both member firms and other stakeholders in providing and linking workforce services.

The partners in the project played key roles in its development and implementation. The Workforce Preparedness Partnership and the Metropolitan Affairs Coalition in their respective reports, *Ready To Work* and *People To Work*, included the following recommendations as part of a comprehensive workforce development strategy:

- Create and support for several years a cross-disciplinary effort of employment, training, and placement organizations, and employers dedicated to networking, training in best practices, and quality improvement setting. There is a need for employer participation in networks that link particular types of industries.
- Create a pilot project to link intermediaries capable of preparing and connecting City of Detroit job seekers

with employers experiencing a shortage of workers with design skills. CAD designers were specifically mentioned in the reports, which suggest that an industry-led task force would be most effective in creating **the pilot project**.

- Form Employer Partnerships that will train persons to deliver skills collectively required by employers.

The initiatives of the partner organizations for this project were in line with these recommendations, but were lacking components that connected these pieces into a comprehensive plan. The long-range goal is to establish links among community resources that will provide prospective employees with a wide range of skills such as interpersonal skills, job readiness, remedial education, and advanced technical training that can continue on the job or in college credit courses. These links will also provide the trainees with the resources and support services needed to maintain employment, such as transportation, child care, job coaching, counseling, and referrals to ancillary services.

### ***Implementation Plan***

The major elements of the project were:

#### **Businesses in Need of Advanced Technology Workers:**

ASE and participating businesses shared their expert resources in the project. A top-level steering committee, made up of business representatives, both from the human resources area and the manufacturing/operations areas, educators, and community organization representatives, oversaw and guided the

#### **Community Organizations Able to Recruit and Offer On-Going Support of**

#### Residents Interested and Able to Work in the Advanced Technology Arena:

The community organizations recruited and provided support to participants throughout the project. This included developing a multi-faceted funding support mechanism to sustain the support effort.

#### Educational Institutions Skilled in Applied Technology Program Design and Implementation:

Participating educational institutions designed the advanced technology curriculum for the project. These educational institutions have extensive experience in developing applied technology programs and customized workforce training. They also have experience working with business sectors to develop technology education programming and are skilled in developmental education and applied learning of adult learners. This component focused on supporting the development of an urban high technology workforce through the coordinated efforts of business, community-based organizations, community colleges, and university technology programs.

#### Linkages Between School To Work Programs, Street To Work Programs and Apprenticeships:

A continuum of training was developed that was incorporated into the current School To Work initiatives of the school system. This program was designed to provide an opportunity for low achieving, and/or disadvantaged students to train for high skill and wage jobs in technology programs. The business and industry partners provided job shadowing, mentoring and work-site experiences.

#### **Impact on Employer and Association Roles, Functions and Capacities**

The project activities enhanced the capacity of local employers to play their workforce development role more effectively and increase ASE's capacity to support its members in these roles in the following ways:

- Build a qualified, sustainable workforce.
- Provide a comprehensive system for area manufacturers and other employers for employee recruitment and training.
- Provide employers with an ongoing support system and effective resources in addressing workforce development issues.
- Improve the skills level and retention rates of their workforce thereby increasing their productivity and profit margin.
- Stimulate the economic development of the area.
- Provide the seeds to further encourage

#### **Impact on the Target Populations**

This project seeks a long-term impact on the individuals who will be participating in the training, as well as the local community. This includes the following:

- Substantially increase the number of community residents who are trained for high-level skills in high wage jobs in manufacturing technology.
- Decrease the unemployment rate, high-school drop-out rate, and poverty level, all of which are the highest in the city of Detroit.
- Provide the participants with an opportunity to develop a career ladder that includes apprenticeships and post

secondary education, which may not have previously been available to them.

- Provide opportunities for life-long learning
- Give the community ownership of the training-by-training residents to provide the instruction.
- Reduce the involvement of area youth and young adults in negative activities by providing them with viable alternatives through education and work and ongoing support.
- Improve the quality of life for the area through economic development, jobs with family-sustaining wages, and a decrease in crime.

### **Conclusion**

Higher education needs to explore areas of possible mutual interest and action. Higher education can be involved in the redefinition of the workforce development system through research, community partnership, and programmatic activities. The role of the community college system is becoming clear to many employers but the role of universities needs to be discussed.

# ENTREPRENEURS USING A BALANCED SCORECARD TO TRANSLATE STRATEGY INTO OBJECTIVES AND MEASURES

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## Abstract

*Although 50% of Fortune 1000 companies currently use a balanced scorecard (BSC), few small businesses are using a BSC. This article begins with a discussion of the BSC and why a small business should use it. Two case studies are presented, with a copy of their BSC, to illustrate how Hyde Park Electronics and Futura Industries use a BSC to set strategy and align operations to achieve breakthrough results.*

## What Is A Balanced Scorecard (BSC) And Why Should Small Business Use It?

The BSC is one of the most highly touted management tools today (Atkinson & Epstein, 2000; Frigo & Krumwiede, 2000; Staff, 2002). About 50% of Fortune 1000 companies in North America and 40% in Europe use a version of the BSC (Kaplan & Norton, 2001). However, a review of the literature search produced limited use of BSC by small business.

Kaplan and Norton (1992) first introduced the BSC in 1990 through an one-year study of twelve companies. These researchers concluded that financial measures alone were not sufficient to measure performance. Other factors in the new economy such as competence and knowledge, customer focus, and operational efficiency and innovation were missing from traditional financial reporting (Kaplan & Norton, 1996).

The BSC translates strategy to operational terms (Frigo & Krumwiede, 2000). The framework of the 4 perspectives of the BSC helps to translate strategy into objectives and measures. The 4 perspectives are financial,

customer, internal process, and learning and growth (Kaplan & Norton, 1996). The Critical Success Factors (CSF) created in each of the 4 perspectives are balanced between long term and short term, as well as internal and external factors that contribute to the business strategy. The BSC not only translates the strategy to operational terms, but it aligns the organization to their strategy by focusing employees on their role in accomplishing the company mission (Frigo & Krumwiede, 2000).

Objectives, measures, targets, and initiatives are developed to guide improvement in all 4 perspectives. Objectives are the end results/outcomes you want to achieve by a specific future date. Measures determine if you are achieving your objectives. Targets are quantifiable, measurable performance outcomes to be achieved within each objective. Initiatives are the strategies and tactics (plans) to achieve specified targets and objectives. The objectives and measures (or metrics) create focus for the future, not a simple measure of the past. A successful BSC program should be a change process, not a "metrics" project (Kaplan & Norton, 2001).

Is your small business achieving its mission/vision? If you don't have a quick measurable answer, you need a BSC. If your team is without a scorecard, it is not playing the game; it's only practicing (Maholland & Muetz, 2002). The BSC plays to the well-known management adage-if you want to manage it, you've got to measure it, and you get what you measure and reinforce. So if you are not measuring your financial, customer, process, and learning and growth, you and other stakeholders really don't know how well you

are performing. Clearly, being able to develop and use a BSC enhances performance.

### **Case Study Of The Balanced Scorecard At Hyde Park Electronics**

Hyde Park Electronics is a manufacturer of ultrasonic proximity sensors based in Dayton, Ohio. They are a family business started 39 years ago. Vincent C. Lewis became CEO in 1999 and has lead the company in the implementation of a balanced approach to measuring company performance. Hyde Park employs 42 people and has a management staff of eight that designed BSC. In 2001, The Company had its most profitable year since 1995 in a weak economy. Lewis attributes this success to the BSC, which he learned about at the Harvard Business School's Owner/President Management Program (OPM).

Below is a discussion of a few of Hyde Park's measures in the four 4 perspectives of BSC. For all BSC measures, see Table 1.

#### ***Financial Metrics***

Since 80% of company profits came from their new product, the financial metrics that evolved were sales, new product sales, operating income, receivables outstanding and a series of product development measures. These controls were particularly important with costs to develop a new sensor family over a quarter million dollars and development time between 6-8 months.

#### ***Operational Quality***

Product development issues pivotal to the success of the company were time to market and quality measures, such as warranty failures in the field and customer returns. Another key driver of quality was product delivery. Metrics created to monitor delivery were: same day delivery, delivery within 5 days, and on-time delivery. On-time delivery has increased from 89% a year ago to a current rate of 96%.

Manufacturing/labor efficiency surfaced as the most critical measure of success. The labor efficiency standard was critical because a flaw in the standard build time could get repeated over 5000 units or 5000 times. Final assembly time is the metric used to bill the customer; the time it takes to make the product determines price.

#### ***Customer Satisfaction***

Measures of customer satisfaction are increased sales, and increased income that results from product acceptance and the generation of repeat customers. Other key customer metrics that drive customer satisfaction are related to product shipment and whether the customer gets the product on the date they requested.

Marketing efforts were measured by tracking data from the web portal that was created for the distribution channel partners. Items tracked are use of the site, orders online, and the effect of direct mail marketing and advertising on lead generation and portal activity.

#### ***Learning And Growth***

The management team asked one basic question that drove creation of the metrics for this quadrant, "Are we making employees happy?" Hyde Park has many employee welfare programs such as benefits, profit sharing, training, employee communication and employee activities. They decided to measure money spent on training per month, and money spent on employee programs. Programs consist of monthly town hall meetings that showcase a department, quarterly state of the business meetings, small group conversations with the CEO, and various parties and celebrations.



Table 1  
Hyde Park Electronics BSC  
SALES

**Total sales**  
Prior year sales (\$1000)  
Current year sales (\$1000)  
Cumulative change (%)  
Prior year rolling av (\$1000)  
Rolling average (\$1000)  
**Distributor Sales**  
Prior year sales (\$ 1000)  
Current year sales (\$1000)  
Cumulative change (%)  
**Channel Partner Sales**  
Prior year sales (\$1000)  
Current year sales (\$1000)  
Cumulative change (%)  
**Sonic sensor sales**  
Prior or year sales (\$1000)  
Current year sales (\$1000)  
Cumulative change (%)  
Sonic system sales  
Prior year sales (\$1000)  
Current year sales (\$1000)  
Cumulative change (%)  
**New products sales**  
Accum. percent total sales

**PRODUCT GROSS  
MANUFACTURING MARGIN**

SM100 Margin  
SM500 Margin  
SM600 Margin  
SM800 Margin  
SM900 Margin  
SM300 Margin  
LS/PR/SP Margin  
Modular sensors Margin (%)  
Array Sensors Margin  
**Financial**  
Operating Profit (15%)  
Current ratio  
Average collection (days)

Cumulative gross margin  
**Marketing**  
Corp/Div Target HQ  
Total Corporate Targets  
Percent Corporate Target Contacts  
Total Market Contacts  
Site visits  
Web leads  
Media Leads generated  
News letter leads  
Direct mail leads  
Direct mail leads  
Direct mail leads  
Direct mail leads

**Human Resources**  
Training expense  
Employee welfare (6150, 6160, 6180)  
Number of employees  
Welfare \$ per employee  
**Purchasing**  
Total inventory (\$1000)-Acctng  
Total inventory (\$1000)-G/P value  
Inventory turns (per year)  
Consignment Inventory (\$1000)  
New PO activity level  
PO commitments (\$1000)  
Delivery performance  
Inventory target ratio  
**Quality**  
Cumm. total return ratio  
Cum. warranty ratio (1.7%)  
SMTA accept. Performance

**IT**

**Public site**  
Search engines polled  
Top ten ranking  
Average Rank  
Search percentage  
**Distributor Portal**  
No. of registrants  
Active users (%)  
Distributorships registered  
Distributorships registered/ total  
Distributorships active/ registered

On line orders  
**Manufacturing**  
Delivery performance (90%)  
Same day deliver  
Five day delivery  
Direct/total labor ratio  
**Labor utilization**  
Overall  
**Labor efficiency per line**  
Overall  
SM100  
SM500  
SM600/SM800  
SM900  
SM300  
**Scrap per line**  
Overall (1.8%)  
SM100  
SM500  
SM600  
SM800  
SM900  
SM300

**ENGINEERING**

**SM300FP**  
Months remaining  
Cost accumulated  
**VIRTU**  
Months remaining  
Cost accumulated  
**Sliver**  
Months remaining  
Cost accumulated

**Case Study Of The Balanced Scorecard At Futura Industries**

Based in Clearfield, Utah, Futura is an international company with 300 employees and more than 50 years experience in aluminum extruding, finishing, fabrication, machining and design. They serve a high-end niche in a variety of markets such as OEM, floor covering trims, electronics, transportation, shower door, marine

store fixture and retail. They attribute their success to a culture where every individual is expected to contribute to the success of the company as well as to the success of the customer.

According to Susan Johnson, President, "We believe the key to helping our business partners achieve success is by providing them with superior customer satisfaction." They use the BSC to focus on two competitive weapons that put Futura ahead in a very saturated marketplace-their ability to hire and retain the best people and their devotion to the customer.

Johnson's belief that loyal employees link to satisfied customers meant that the BSC was a natural progression to measuring the business. It puts the focus on people as the foundation for success.

Below is a discussion of a few of Futura's measures in the four 4 perspectives of BSC. For the actual one page BSC measures, see Table 2.

**Learning And Growth**

Futura measures three main areas in Learning and Growth that are the cornerstones to their ability to attract and retain key talent. First turnover is measured in the following three ways: key leadership turnover, one year plus turnover, and total company turnover. In an industry with norms of over 50%, their rate went from 43.7% in 1998 down to its current 6.7% turnover.

In order to monitor their many work life initiatives and continually improve the offerings of employee programs, employees are surveyed annually to see what programs are truly valued.

Employee satisfaction is measured by an annual Leadership Review that asks employees to evaluate their manager, and by a unique review called the Birthday Review held during the month of the employee's birthday. Employees have a face-to-face meeting with HR representatives and are asked a series of questions about the company. After the verbal dialog, they are given an anonymous survey.

# FUTURA INDUSTRIES BALANCED SCORECARD - 2002

Through May 31, 2002

ACTUAL-YTD

MEASUREMENT TARGET

Prosper Grow Survive		* Income \$/ %	\$147K/1.9% 2Q	85K /1.7%
Strategic Pillars		* Free Cash ROTA	\$600K/2.0% yr	251K/2.0%
Growth		* TRIR / Lost Time	0 / 0 (# of emp)	11.55 %
Operational Excellence				10 / 6
<p>Speed</p> <p>Quality</p>	<p>Customer Satisfaction</p> <p>Customer Complaints</p> <p>On-Time Deliveries</p> <p>RMA's</p> <p>Total Inventory Turnover</p> <p>Total Finished Goods Turnover</p>	<p>85%</p> <p>&lt; 30 per month (360) yr</p> <p>95 %</p> <p>&lt; .25</p> <p>15</p> <p>25</p> <p>2nd Qtr</p> <p>41.2%</p> <p>12.8%</p> <p>46%</p>	<p>86.4%</p> <p>37.8 avg / 189ytd</p> <p>80 % mo / 83% ytd</p> <p>10% mo/ 13% ytd</p> <p>7.2</p> <p>12.2</p> <p>AVG</p> <p>43.3%</p> <p>14.0%</p> <p>42.6%</p>	
	<p>Market Composition:</p> <p>Commercial</p> <p>OEM Simple</p> <p>OEM Complex</p>			
<p>Planning &amp; Delivery - Deliver what we say when we say</p> <p>Continually reduce our cost</p>	<p>% of Sales from New Products</p> <p>Margins on NP, Std/Real/Net</p> <p>Quote Accuracy (runs 1-4)</p> <p>Cost of Quality:</p> <p>Recoveries</p> <p>Plant Scrap</p> <p>Rework</p>	<p>13 %</p> <p>21% / 10% / 8%</p> <p>+ 20% on first runs</p> <p>80%</p> <p>2%</p> <p>.4%</p> <p>&lt;\$34.00 hr</p> <p>&gt;5000 lbs</p> <p>&gt;\$13,500</p>	<p>18.4% ytd</p> <p>19.4% / 14% / 11.1% ytd</p> <p>6% ytd</p> <p>80.12% yr</p> <p>2.56% yr</p> <p>32% yr</p> <p>\$34.03 ytd</p> <p>5237 lbs.</p> <p>\$13,822</p>	
	<p>Total Production Cost/Std hr.</p> <p>Pounds Packed/Person</p> <p>\$ Packed/Person</p>			
Turnover				
<p>Key / Leadership Turnover</p> <p>One Year + Turnover</p> <p>Total Company Turnover</p> <p>Employee Satisfaction</p> <p>Leadership Survey</p> <p>Birthday Reviews</p>		<p>&lt; 5%</p> <p>&lt; 7%</p> <p>&lt; 20%</p> <p>Avg 4.2 + (scale 1-5)</p> <p>Avg 3.2 + (scale 1-4)</p> <p>80% Advancement</p>	<p>0%</p> <p>2.2% ytd 5.3% trend</p> <p>6.2% ytd 14.9% trend</p> <p>3.9</p> <p>3.27</p>	
Average Cert. Levels				

FINANCIAL

CUSTOMER PERSPECTIVE

INTERNAL PERSPECTIVE

LEARNING, INNOVATION & GROWTH

Issues identified in the dialog are followed up with a Birthday Review follow up form that responds to identified issues or complaints. On a scale of 1-4 the target is 3.2 (they achieved 3.26 YTD) for employee satisfaction.

The third metric refers to average certification levels-a job wage skill classification attained by additional training and job skills. Factors such as corporate citizenship, interdepartmental collegiality, and cultural maturity are monitored-with a goal of 80% of employees moving to the next level during their performance review.

Compensation is based on the skill certification level attained and the completion of required training. This provides not only a guide to compensation, but also a map for the employee to chart their course and future career progression.

***Customer Service***

Johnson's management staff asked a basic question when determining customer metrics, how do you give good customer service? The answer was their ability to hire people aligned with their values and retain people who perform. This dimension of the BSC will be simplified to 4 key measures: Customer satisfaction, customer complaints, on time delivery, and return materials rate.

Futura's unique approach to determining customer satisfaction involves placing calls to 10 randomly selected customers each month and posing seven questions about quality, on time delivery, and fair value of product and services. Johnson runs monthly management meetings around the results of the surveyed customers. The goal is 8.5 on a scale of 1-10. Their highest score is 9.05 for ease of doing business, and the lowest score is for fair value, which is 8.15. Their overall score is 8.64.

***Financial***

A unique financial measure used at Futura are performance cards that were introduced 2 years ago to drive individual incentives for employees. Employees are paid a base salary and have a quarterly formula for incentives based on hours worked times a point system that generates a financial award linked to the following three metrics: (1) company-wide productivity, (2) company-wide plant scrap rate (current rate is an amazingly low 2%), (3) safety and housekeeping.

***Internal Operations***

Internal metrics focus on new product development as a percent of sales. Futura is expanding their top end customer base and has a target of 13% of sales from new customers. Their current rate is 17.5% of sales derived from new products.

The most important metric on the BSC is safety, which drives ultimate productivity and profitability. Housekeeping and safety are given top priority at Futura, which benchmarks itself against national norms for safety. Numbers are tracked for Total Recorded Incidents (TRIR) per 200,000 labor hours. TRIR nationally is reported at 11, for the aluminum industry it is 13, and at Futura it is a respectable 7.5.

Futura Industries uses the BSC as a strategic tool to align their values to company measures. The card provides company leadership with a one page, simple yet powerful tool to capture measures that matter to the business. The BSC is the visual representation of their strategies and execution metrics, which are communicated to both internal and external stakeholders.

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**Available upon request**

**From Concept To Profits: Capitalizing On The New Paradigm Approach To Guide Business Plan Development**

*Michael Ames, California State University Fullerton*

**Abstract**

This paper explores how small business owners and their consultants can capitalize on a new business planning paradigm. The new paradigm draws on the thinking of the quality movement and is used increasingly by major corporations. Most business planning resources for small business have not yet recognized the new business planning paradigm. They still describe traditional business plan formats which reflect conventional approaches to strategic and operational planning. The new paradigm has strengths that cope well with the shortcomings of traditional small business planning. This paper describes the "New Paradigm" approach, summarizes the relative strengths of the new approach, and presents a business plan evaluation tool that helps consultants guide small business owners from concept to profits.

**Introduction**

This paper explores how small business owners and their consultants can capitalize on a new business planning paradigm. The new paradigm draws on the thinking of the quality movement and is used increasingly by major corporations. Most business planning resources for small business have not yet recognized the new business planning paradigm (e.g., Megginson (2003); Ryan (2003)). They still describe traditional business plan formats which reflect conventional approaches to strategic and operational planning in vogue thirty years ago (Gilmore (1971)). Unfortunately, the prevailing paradigm in small business publications has shortcomings as a guide for building profitable new ventures ( Ames, 1994). Also, for

established small businesses, the traditional paradigm may obscure pathways to success rather than help owners efficiently draw "road maps to riches." It is time to recognize the new paradigm and employ its strengths to cope with the shortcomings of traditional small business planning. The resulting "alloy" or "New Paradigm" approach will yield stronger business plans (Ames, 1994) This paper describes the "New Paradigm" approach, summarizes the relative strengths of the new approach, and presents a business plan evaluation tool that helps consultants guide small business owners from concept to profits.

The traditional small business plan paradigm ("TSBP") is a set of rules commonly recommended to guide the small business planning process. A mature paradigm, it was adapted over thirty years ago from the strategic planning paradigms of large corporations ("LBP"). Over the last thirty years, the LBP has undergone a major transformation, but the TSBP has changed little. The TSBP now differs significantly from the LBP currently used by large firms striving for business excellence Table 1, adapted from a recent article by Calvin London, describes the current LBP (London, (2002)). Many other recent contributors to Quality Progress, The TQM Magazine, and national quality awards criterion describe the current LBP (e.g., Babich(1995); Brown(1996); Crepin(2002); Kinnear(2002); Laszlo(1997); Puay, et. Al(l 998); Sussland(2002); and Watson(2002 ).

Table 2 presents two variations of the layout for the typical TSBP business plan. They are adapted from two popular small business books



and imply much about the TSBP.

Tables 1 and 2 are brief overviews of the TSBP and the LBP. However, the tables help compare the two planning paradigms. Versions of the TSBP often focus on specific guidelines for business plan format, such as the table of contents and the exposition of information within each section of the plan. Versions of the TSBP often exclude major LBP planning activities (such as departmental action plans and individual actions) and skim over management of the planning process. Given these differences, how useful is the TSBP for small business? Is it really a "roadmap to riches"? [Megginson et. al, p. 453] Will completing a traditional business plan following the rules of the TSBP "reduce the risk of failure?" [Ryan, p. 3221

Planning for Business Excellence

Leon C. Megginson, Mary Jane Byrd, and William L. Megginson argue that the business plan performs three important functions: "(1) being an effective communications tool to convey ideas, research findings, and proposed plans to others, especially financiers; (2) serving as a blueprint for organizing and managing the new venture; and (3) providing a measuring device, or yardstick, by which to gauge progress and evaluate needed changes." [Megginson et. al, p. 453] A planning process has value if it performs these functions. The question is, does the TSBP- guided planning process perform these functions efficiently and effectively? Is it competitive with a down-scaled version of the LBP? If we want an efficient and effective business plan paradigm that is competitive in today's world, can we speed the journey from concept to profits by revising the TSBP to reflect useful elements of the current LBP?

Table 1: The Strategic Planning Paradigm of Large Corporations ("LBP11)

Five Principle activities

- 1. Mission, vision and values:** The company vision (the ultimate strategic objective) is cascaded in bite-sized chunks (the mission statement) and effected through the strategic quality plan. The plan translates and defines the strategic direction for the company into the foreseeable future (the time frame). This promotes ownership and a more focused effort on activities by which the company will ultimately be measured.
- 2. Strategic plan:** The plan details the elements the senior management group (SNIG) thinks important. SMG includes representatives of all business sectors of the company. Consensus among this group for the overall objectives and their deployment is essential.
- 3. Critical success factors:** As part of the planning process, SNIG determines appropriate critical success factors. These became the milestones for overall performance, similar to the threats of more traditional SWOT (strengths, weaknesses, opportunities and threats) analyses.
- 4. Departmental action plans:** Although SNIG defines the direction for the company and the framework for strategic thinking, the whole company carries out the plan through individual department actions, controlled interdepartmental process improvement or problem resolution groups. Structured departmental action plans promote the involvement of the entire company in the process, and each department is responsible for developing its own plan and associated performance measures.
- 5. Individual actions:** The foundation of the plan ultimately depends on the performance of individuals. Individual activities form the content of each departmental action plan, providing all employees with the opportunity to participate in the planning process.

## Management of the planning process

1. Manage the five principle activities (described above)
2. Establish and review the plan
3. Establish and review departmental action plans. Consolidate the plan
4. Deploy the plan.
5. Communicate the plan and its progress. (Adapted from (London, pp. 27-28))

**Table 2: The Traditional Small Business Plan Paradigm ("SBP"):  
Two Typical Layouts of SBP Business Plans**

### Layout One

1. Cover sheet
2. Executive summary
3. Table of Contents
4. History of the (proposed) business
5. Description of the business
6. Description of the market
7. Description of the product(s)
8. Ownership and management structure
9. Objectives and goals
10. Financial Analysis
11. Appendices (Megginson, pp. 453-454)

### Layout Two

- Executive Summary
- I Description of the business
    - A. The service we provide
    - B. Industry overview and target markets
    - C. The Competition
    - D. Marketing Strategy
    - E. Our facility/location
    - F. Management and Personnel
    - G. Exit Strategy
  - II Financial Section
    - A. Pro Forma Income/Cash Flow Statement
    - B. Balance Sheet
  - III Appendices
    - A. Market Research
    - B. Personal Resumes
    - C. Personal Financial Statements
    - D. Pro Forma Cash Flows Projections (Ryan, pp. 324-325)

The current LBP helps large companies build profit momentum. Its guidance is similar to the TSBP in many ways. For example, both the LBP and the TSBP encourage:

1. Time based plans (milestones and deadlines)
2. Budgets based on milestones
3. Setting of control points.
4. Tracking of progress.

However, comparing tables I and 2, the current LBP differs in four major ways from the TSBP:

1. Orientation
2. Degree of rationalization (Plan roll up from individual action to company performance)
3. Action Plans
4. Consolidation

Orientation is perhaps the key difference. The difference in orientation drives the two paradigms along different pathways to success. Historically the orientation of the LBP and the TSBP were similar. The firm was described by a pyramid-shaped organization chart with the chief executive in the top box. Authority flowed from the top. Over the years, the TSBP's orientation has remained largely the same. The current TSBP retains a "bosscentered," functional orientation, echoing the version of the LBP in vogue thirty years ago. However, the current LBP has changed its orientation. The change in orientation has had a major positive impact on efficiency and effectiveness of many large companies. The LBP now orients more towards "teamcentered" work flows(activity based). The streams of activity merge and culminate in achievement. The organization as viewed as flows of work. Teams orchestrate the flow and individuals contribute to the flow as needed. Authority is now based more on contributions to team and work flow and less on job title. Table 3, adapted from the work of Myron Tribus, lists major ways the TSBP and LBP orientations contrast. (Tribus (1988) p 217)

For the present discussion, Table 3 illustrates a key point about orientation. If the small business owner thinks of the company in terms of the organization chart, it is likely that the business plan will lay out one set of actions. On the other hand, if the owner thinks in terms of process flow, a different set of actions will come to mind. (Tribus (1988) p. 216)

Specifically, to the TSBP user, the two layouts in Table 2 are familiar and complete.

However, Table 3 suggests that, if these TSBP layouts are used as a guide, the resulting business plan will leave many important questions inadequately answered. For example, HOW and WHEN will objectives and goals be accomplished? Objectives and goals are number nine on the Megginson layout in Table 1. They do not appear explicitly on the Ryan layout. Even when objectives and goals are presented in TSBP layouts, two other important questions are often unanswered: HOW will internal functional areas work together to accomplish planned results? Further, HOW will internal stakeholders work together with external stakeholders such as customers, suppliers, distributors and funders?

Why are good answers to these questions important to privately held small businesses? For the small business, an integrated operating plan and cross functional teamwork is critical to capitalize on three potential strengths of being a small enterprise: (1) the opportunity to brand in small, niche markets with strong unmet needs (i.e. the ability to become a big, profitable fish in a small pond), (2) the opportunity to offer personalized service that harmonizes with the voice of the customer, and (3) the opportunity to be flexible as market conditions change. Review of the references cited earlier show that the current LBP addresses these issues in depth. It is useful to use LBP as the benchmark for revisions in the TSBP.

### **Business Plan Score Card: A New Paradigm Business Evaluation Tool**

To help focus thinking on the New Paradigm approach to small business planning, the author developed the Business Plan Score Card in Table 3. It was developed for use by the loan committee of a bank consortium that lends to SMEs. The purpose of the consortium is twofold : (1) improve the business skills of its clients, (2) make loans to clients as they



develop a bankable plan. The score profile helps guide both activities. Low scores help guide counseling. They also guide requests for plan improvements so that the SME becomes more bankable.

Small business consultants will find the Business Plan Score Card a useful guide for evaluating their clients' business plans. Although the questions on the Business Plan Score Card are clustered in familiar TSBP categories, many of the questions draw on the current LBP perspective. Hence the score card combines the TSBP and the current LBP to become a useful tool for the New Paradigm approach.

Answers to the questions on the score card are hard to find in the typical TSBP business plan. Based on the loan committee's experience, many TSBP plans address the conceptual questions in the statement of purpose section of the score card fairly well. However, most TSBP plans initially receive low scores in the

other three sections, especially regarding questions about operational plans, use of resources, and tie in between the plans for operations and marketing and the pro-forma statements.

In other words, once a business is fueled by a sound business concept (Section I in Table 3), profits are driven by four operational engines: quality planning systems, quality production, quality selling, and quality financing. According to the New Paradigm approach, for maximum profit velocity, these engines must be fine tuned by training, balanced by team work, and maintained by quality and continuous improvement programs. TSBP plans are typically incomplete when it comes to synchronized action between functional area Plans underestimate or omit, the costs of building a winning team that systematically achieves quality results. The budgets for the functional areas are unconsolidated (i.e. they do not add up).

**Table 3: Orientation of LBP vs. TSBP**

TSBP Authority Centered Focus (Organization Chart)	LBP Work Centered Focus
Motivate people	(Process Flow)
Find out who is wrong	Remove barriers to performance
Allocate responsibility	Find what is wrong
Fix everyone's attention on the bottom line	Study the process to prevent flaws
Call for clear measures of productivity	Fix everyone's attention on quality
Call for and reward individual achievement	Call for clear measures of quality
Give "crisp" marching orders"	Call for and reward group achievement
"Do Your Job"	Establish well defined procedures "Help me to help you to do your job.

**Table 4: Business Plan Score Card**

Company: \_

#

**Evaluative Feedback:** (the higher the score is, the better)

Score (Circle)

**1. STATEMENT OF PURPOSE**

- a. Does the plan convey a focused business idea (related, doable bundles of products and services)?
- b. Does the plan show that the business idea fits the owner's distinctive competencies (experience, education, etc.)?
- c. Does the plan identify a specific target market(s) and provide current information on the market?
- d. Does the plan show that the target market is reachable at reasonable cost?
- e. Does the plan show that the target market has sufficient profit potential, given existing competition?

1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5

**Comments:**

**2. OPERATIONS**

- a. Does the plan include operational plans, detailing business operations?
- b. Does the plan give logical milestones?
- c. Does the plan provide for reasonable use of resources (staffing, facilities, equipment, etc.)?
- d. Does the plan show how the company will obtain needed resources at reasonable cost?
- e. Does the plan detail how the company will use these resources to make money?

1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5

**Comments:**

**3. MARKETING**

- a. Does the plan provide for reasonable methods of distribution?
- b. Do the methods of distribution include sufficient incentives and markups for those involved?
- c. Does the plan include a promotional budget that specifies specific medium, usage calendar, and budgeted cost?
- d. Does the plan allocate sufficient key staff time to market the company, given operational commitments of key staff?
- e. Does the plan show that the company has access to accurate marketing information and advice?

1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5

**Comments:**

**4. FINANCE**

- a. Does the plan include pro-forma financial statements (balance sheet, profit and loss, and cash flow, monthly for the first year, quarterly for the second and third years)?
- b. Do the pro-forma statements tie together with plans for operations and marketing? (i.e. do all the plans add up?)
- c. Does the plan specify the assumptions made in the financial statements and are the assumptions reasonable?
- d. Does the plan compare projected financial performance with historical company and/or industry performance?
- e. If the plan requires additional money to execute, over and above operating profits, does the plan show specifically how the additional money will be used to benefit the business?

1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5  
1 2 3 4 5

**Comments:**

## Conclusion

Most business planning resources for small business have not yet recognized the new business planning paradigm discussed in this paper. They still describe traditional business plan formats which reflect conventional approaches to strategic and operational planning. The new paradigm has strengths that cope well with the shortcomings of traditional small business planning. This paper describes the "New Paradigm" approach and summarizes the relative strengths of the new approach. It is time to use the strengths of the new paradigm to cope with the shortcomings of traditional small business planning. This paper provides small business consultants with a Business Plan Score Card that can help guide small business owners from concept to profits.

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# **Growing Pains: A Federal Compliance Primer for Small Employers**

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## **Abstract**

Small employers often have an advantage over their larger counterparts in that they are not subject to certain regulatory compliance requirements. However, as small employers' workforces expand, the organizations become subject to various federal employment statutes. This paper reviews the primary federal employment laws that are likely to impact small firms as they grow. It also provides suggestions for dealing with these mandates.

## **Introduction**

There is a distinct advantage to being a small organization, especially in the realm of regulatory compliance. Most federal employment statutes apply only when an employer's workforce reaches a minimum threshold. Those who operate below that threshold are not under the jurisdiction of the statutes and, therefore, are not legally obligated to comply with their provisions. Most small businesses begin below this threshold (and as will be seen, this threshold does vary from law to law). However, as many small businesses prosper and grow, expanding workforces (sometimes as few as four employees) often cross the invisible line into regulatory compliance obligations.

The purpose of this paper is to address the range of employment laws that are likely to affect successful small businesses as they grow. In doing so, the employer size requirements that impose compliance obligations under each specific act and the act's major provisions are

outlined. Additionally, the penalties for noncompliance authorized under each statute are discussed. Although our review of these laws is extensive, it is only cursory.

## **Fair Labor Standards Act**

The first body of employment law of importance to small employers is the Fair Labor Standards Act (FLSA). Enacted in 1938, the FLSA governs three aspects of employer-employee relations: (1) the federal minimum wage, (2) overtime, and (3) child labor.

### **Minimum Wage**

The FLSA requires all covered employers (includes most employers) to pay nonexempt employees at least \$5.15 per hour. *Nonexempt employees* are those employees who are covered by the FLSA's minimum wage and/or overtime provisions. Failure to provide minimum wages and overtime payments to nonexempt employees will result in a FLSA violation. Shortly, *exempt employees*, those for whom minimum wage and overtime do not apply, will be discussed. First, however, two variants of minimum wage for nonexempt employees are addressed: (1) tipped employees and (2) compensatory time.

### **Tipped Employees**

Since many small employers are in the hospitality industry and employ tipped employees (like wait staff), it is important to understand the employer responsibilities under the FLSA for such employees. Under

the FLSA, tipped employees are entitled to the federal minimum wage. Though employers may credit a certain amount of the tips received by employees against the minimum wage obligation, an employer is obligated to pay tipped employees not less than \$2.13 per hour in wages (U.S. Employment Standards Administration, *Fact Sheet No. 15*, 2002). Provided that the \$2.13 per hour wage plus tips equals or exceeds the federal minimum wage, the employer is not required to provide any additional wage to tipped employees. In the event that an employee's cash wage *combined* with tips does not equal the minimum hourly wage, the employer must make up the difference (U.S. Employment Standards Administration, *Fact Sheet No. 002*, 2001).

### Compensatory Time

*Compensatory time* is time off in lieu of overtime compensation. There are two issues of concern. First, any compensatory time off must be calculated at a rate not less than one and one-half hours for each hour of employment for which overtime compensation would have been paid (29 U.S.C. § 207(o)(1)). For example, if an employee worked 46 hours in a 168 consecutive hour work week, that employee would be entitled to 9 hours compensatory time (46 hours - 40 hours of standard work week = 6 hours overtime; 6 hours times 1 1/2;

9 hours compensatory time).

The second concern relates to the limitation currently placed on private sector employers that the compensatory time must be used within the pay period it was accrued. For example, assume that an employee is paid twice monthly (the first and fifteenth of each month). During the week of June 1-7, the employee worked 50 hours. The employee would be entitled to 15 hours

compensatory time (50 hours - 40 hours of standard work week = 10 hours overtime; 10 hours \* 1 1/2 = 15 hours compensatory time) but would have to use the compensatory time the following week because the pay period expires on June 15.

### Overtime

The FLSA establishes the standard employee's workweek at a fixed period of 168 consecutive hours, or 7 consecutive 24-hour periods. Note that in the health care industry for certain health care professions this has been extended to a fixed period of 336 consecutive hours, or 14 consecutive 24-hour periods. In most instances, any overtime pay accrued in a particular workweek must be paid on the regular pay day for the pay period in which the wages were earned. Whatever the employee's regular rate of pay is, it cannot be less than the minimum wage.

Once the employee's regular rate or straight-time rate has been determined, nonexempt employees are entitled to one and one-half times that rate for each hour worked in excess of 40 (80 in healthcare professions) during the 168 consecutive hour (336 in healthcare) work week. However, no overtime is required for exempt employees.

### Exempt Employees

*Exempt employees* are those employees who are specifically excluded from the FLSA's protection for minimum wage and overtime. The fact of the matter is that so many classes of employees are covered by the FLSA (nonexempt employees), that it was easier for Congress to identify those who were not protected under it (exempt employees). The most common

exemptions are as follows: (1) Commissioned sales employees of retail or service establishments are exempt from overtime provided that more than half of their earnings come from commissions and these earnings average at least one-half times the minimum wage for each hour worked; (2) Salesmen, partsmen, and mechanics employed by automobile dealerships are exempt; (3) Seasonal and recreational establishments are exempt from both the minimum wage and overtime pay provisions of the FLSA; and (4) White collar employees employed in executive, administrative, professional, or outside sales positions (as defined by the Department of Labor (DOL)) who are paid on a salary basis are also exempt from both the minimum wage and overtime

### **Child Labor Limitations**

Employers may assign employees who are 18 years or older to any position in the workplace, to work at any time, and to work in virtually any context (provided that the working conditions are in compliance with the Occupational Safety and Health Act). But, applicants or employees under age 18 are restricted in some or all of these categories. Workers 16 and 17 years old may work for unlimited hours, but only in nonhazardous jobs. Hazardous jobs are enumerated by the Secretary of Labor and are off limits to all workers younger than 18 years of age (29 U.S.C. § 212). Jobs identified as hazardous are: manufacturing or storing explosives, driving a motor vehicle, operating power-driven wood-working machines, meat packing or processing, wrecking, demolition, and ship-breaking operations, and roofing operations (29 C.F.R § 570.33).

For workers between 14 and 15 years,

there are also limitations on both the hours that can be worked and the time of day that the work may occur. During periods when school is in session, these workers are permitted to work outside school in nonmanufacturing, nonmining, and nonhazardous jobs within specific hourly and time limits.

There is an exemption for small employers trying to give their own children an early start in the family business. Individuals who work for their parents or spouses are not covered under the FLSA.

### **Commonly Held Myths About the FLSA**

There are many misconceptions, especially among employees, about pay and benefits mandated by the FLSA. Nothing in the FLSA imposes any obligation on employers to provide employees with vacation, holiday, severance, or sick pay. The FLSA does not require an employer to furnish employees with meal or rest periods, holidays off, or vacations, paid or not. Neither does the Act obligate employers to provide premium pay for working on weekends, at night, or on holidays. Employers are not required to offer pay raises or fringe benefits. Finally, the FLSA does not impose any obligation to provide terminated employees with a discharge notice, reason for discharge, or immediate payment of final wages.

### **Immigration Reform and Control Act**

Because it applies to all employers, even small employers should have knowledge of the Immigration Reform and Control Act (IRCA) of 1986. Any employer who knowingly hires an illegal immigrant

may be subject to a schedule of fines ranging from \$275 to \$10,000 *for each unauthorized alien* depending on the severity of the offense and number of previous offenses (8 C.F.R. § 274a.10(b)(1)). There are even criminal penalties authorized under IRCA that carry imprisonment for up to 6 months for any person who engages in a pattern or practice of violations (8 C.F.R. § 274a.10(a)).

Interestingly, most violations connected with IRCA do not arise from hiring undocumented workers. Most fines are levied for failing to comply with the Act's employment verification procedures. Fines for failure to prove that an employee's employment status was done in accordance with the IRCA may range from \$110 to \$1,100 for each employee for whom verification was not performed (8 C.F.R. § 274a. 10(b)(2)).

Since 1986, all employers, regardless of size, are required to verify the employment eligibility of all applicants by requiring the applicant to complete the form 1-9, "Employee Information and Verification" (8 C.F.R. § 274a.2(b)). In addition to having the applicant complete the 1-9, the employer is required to request documentation from the applicant to establish his or her identity and employment eligibility. This verification must be accomplished within three days of the hire. Employers are encouraged to keep on file photostatic copies of the employee's Form 1-9 in order to prove that the documents were physically examined.

### **Civil Rights Act of 1964**

The Civil Rights Act of 1964's Title VII is the foundation of most of the laws and regulations that affect equal employment opportunity (EEO) in the workplace. It applies to a small business once that business

employs 15 or more employees during any 20 weeks during the preceding year. Title VII is enforced by the Equal Employment Opportunity Commission (EEOC). Specifically in Section 703 of the Act:

It shall be an unlawful employment practice for an employer - (1) to fail or refuse to hire or to discharge any individual or otherwise to discriminate against any individual with respect to his compensation, terms, conditions, or privileges of employment, because of such individual's race, color, religion, sex, or national origin (42 U.S.C. § 2000e-2(a)).

This section forbids a covered employer from taking into consideration any applicant's *race, color, religion, sex, or national origin* when making any employment-related decision. For example, if an employer considered an applicant's ethnicity in making a decision, then Title VII is violated. If the fact that an applicant is a female affects a promotion decision, Title VII is violated. Title VII's purpose is to get employers to make employment decisions based only on an individual's qualifications.

### **Civil Rights Act of 1991**

This Act not only provided for punitive and compensatory damages in specific cases of intentional employment discrimination (42 U.S.C. § 1981(a)), it also permitted employment discrimination cases to be heard by a jury. Prior to the Civil Rights Act of 1991, victims of intentional discrimination were not entitled to punitive and compensatory damages, and all Title VII suits were heard before a federal judge only.

Interestingly, whenever punitive and compensatory damages are imposed, they are limited by ceilings (maximum amounts that can be imposed). These ceilings are the

maximum monetary awards that federal judges may impose for punitive and compensatory damages for *each* victim of discrimination.

The judge may award any amount up to the maximum damages to each complaining party based on the employer's size: 15 to 200 employees, \$50,000; 201 to 300 employees, \$100,000; 301 to 500 employees, \$200,000; and more than 500 employees, \$300,000 (42 U.S.C. § 1981(b)(3)(D)).

### **Americans with Disabilities Act**

The Americans with Disabilities Act (ADA) of 1990 was enacted to prevent discrimination in employment against a qualified individual on the basis of a real or perceived disability (Title 1), prohibit discrimination against individuals with disabilities in public transportation (Title 11), and provide for public accommodation and access for persons with a disability (Title 111). In regard to employment, the most important thing to remember is that the ADA only protects *qualified individuals* with a disability from discrimination. It does not protect *unqualified* individuals with a disability any more than the other EEO laws protect such individuals.

To fall under the provisions of the ADA, a small business must have 15 or more employees. If covered, the Act states that no entity shall discriminate against a qualified individual with a disability because of the disability of such individual in regard to job application procedures, the hiring, advancement, or discharge of employees, employee compensation, job training, and other terms, conditions, and privileges of employment (42 U.S.C. § 12112(a)).

To determine whether an applicant or

current employee is protected under the ADA, two basic questions must be answered: (1) is the individual disabled? and, if so, (2) is the individual qualified? The ADA defines the term "disability" to mean: a physical or mental impairment that substantially limits one or more of the major life activities of an individual, a record of such impairment, or regarding an individual as having such an impairment. An employer runs the risk of triggering an ADA claim any time an employment decision is determined based on an individual's perceived disability.

Once the individual's "disability" has been established, the next question must be asked: is the individual with the disability qualified? If the individual can perform the essential job functions without any accommodation, he or she is qualified. If not, then what is the appropriate reasonable accommodation that would permit performance of these functions? Reasonable accommodation refers to modifications that would permit the individual with a disability to perform the essential functions, provided that these modifications do not create an undue hardship for the employer.

In determining reasonable accommodation, the employer may ask the individual for reasonable documentation about the disability and functional limitations. But, employers should be careful. The ADA prohibits the employer from requesting medical information, which is not pertinent to the accommodation (U.S. Equal Employment Opportunity Commission, 1999). This usually precludes employers from requesting complete medical records on the individual in question because such records would include a good deal of information not related to the accommodation. Remember, once this information is obtained, the employer is



responsible for keeping it confidential.

As for making accommodation under the ADA, the EEOC has developed 3 categories of "reasonable accommodation." When attempting to accommodate an applicant or employee, an employer should consider: (1) modifying the job application process (i.e., providing readers for applications or employment exams), (2) modifying the work environment (i.e., flexible or part-time scheduling, job restructuring, reconfiguring work areas, etc.) or (3) modifying the benefits and privileges of employment (i.e., allowing employees to use vacation or personal leave to attend therapy sessions) (U.S. Equal Employment Opportunity Commission, 1999).

Employers, particularly small employers, are not required to provide any of these accommodations if they cause an *undue hardship*. If they create an undue hardship for the employer the applicant is not considered to be a *qualified individual with a disability*.

### **Family and Medical Leave Act**

Some small employers may have crossed the employee number "line" where they must comply with the Family and Medical Leave Act (FMLA) of 1993. Those small businesses subject to the FMLA must be engaged in commerce, or industries or activities affecting commerce, and employ 50 or more full-time employees working 20 or more weeks during the current or preceding calendar year (29 U.S.C. § 2611(4)(A)). Furthermore, in order for employees to be eligible for the FMLA leave benefit, they must work at a facility where the employer has at least 50 employees within a 75-mile radius (29 U.S.C. § 2611(2)(b)(ii)). Eligible employees can receive a total of 12 weeks of

unpaid leave in a 12-month period for the following reasons (29 U.S.C. § 2612(a)(1)): (1) the birth and care of the employee's newborn child, (2) the adoption or foster care of the employee's son or daughter, (3) a serious health condition of the employee's spouse, child, or parent, or (4) the employee's own serious health condition. In order to qualify for the above mentioned benefit, the employee requesting the FMLA leave must have worked for a covered employer for at least 12 months *and* must have worked for that employer for at least 1,250 hours during the previous 12 months (29 U.S.C. § 2611(2)(A)).

During the FMLA leave period, the small business would be required to maintain the employee's group health insurance coverage just as though the employee was still in a working status. Note that if the group health insurance is a contributory plan (the employee shares the benefit cost with the employer), the employee is still responsible for paying his or her share of the benefit costs during the leave period. Upon returning from FMLA leave, the employer is obligated to ensure that the employee is returned to the same or an equivalent job (29 U.S.C. § 2614(a)(1)).

### **Concluding Remarks**

Although most federal employment laws apply only to small employers when they meet a minimum threshold of employees, some apply regardless of size while the minimum threshold varies from law to law. Therefore, it is imperative that small employers are aware of the provisions and requirements of key federal legislation. Specifically, this paper suggests that small employers should have knowledge of the Fair Labor Standards Act, the Immigration

Reform and Control Act, the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, and the Worker Adjustment and Retraining Notification Act. By understanding their compliance

obligations, small employers will be able to make employment decisions that will allow their businesses to prosper and grow.

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# SMALL BUSINESS OWNERS/MANAGERS' INFORMAL WORKPLACE LEARNING: PRELIMINARY FINDINGS

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## INTRODUCTION

The need for managers, as well as other members of organizations, to continually learn because of changes in technological, economic, political, and social sectors of the environment has been well documented (see for example, Bard & Moore, 2000; Inman & Vernon, 1997; Marsick, 1998; Watkins & Marsick, 1992). Indeed, there are those who consider learning in organizations a potential source of competitive advantage (Lang & Wittig-Bernian, 2000; Lei, Slocum, & Pitts, 1999; Rowden, 1996).

Management learning is a three-part framework consisting of management education, management training and on-the-job experiences (Wexley and Baldwin, 1986). However, it has long been reported that much, if not most, of what managers learn they do so through their experiences in the workplace (see for example, Bassi, Cheney, & Lewis, 1998; Zemke, 1985). Indeed, some have suggested that 90% of what people need to know to effectively do their jobs is actually learned in the workplace (Brinkerhoff & Gill, 1994). Consequently the notion of workplace learning, by no means a new phenomenon (Matthews, 1999; Rowden, 1996), has become a topic of increased interest to many (Inman & Vernon, 1997). It has been examined for a number of professional and occupational groups, for example, human resource development practitioners (Garrick, 1998), nurses (White et al., 2000), school teachers (Lohman, 2000) and public defenders (Hara, 2001).

Much of the research on the workplace learning of small business owners/managers has focused on formal learning (i.e., management training and development through institutionally based courses and programs) (Bechard & Toulouse, 1991). According to Day (1998), formal learning tends to be specific, scheduled and delayed and is quite different from informal learning which is spontaneous, tends to be used immediately and may or may not have specific outcomes. A focus on informal learning is quite appropriate given that some studies have been reported that 70% of learning in organizations is informal (Day, 1998). There has been some research that has identified the importance of small business owners/managers' informal learning, for example, management self development (Murphy & Young, 1995a), the relationship between experience and reflection (Doyle & Young, 1999), and women entrepreneurs and their learning (Fenwick & Hutton, 2000). However, more in-depth research on the informal learning of small business owners/managers, particularly in the areas of workplace context and possible gender differences, is required.

Thus, the purpose of this paper is to explore the informal learning of small business owners/managers within a workplace context. Initially a review of research on informal workplace learning by small business owners/managers will be presented. This is then followed by an examination of learning strategies and outcomes of informal learning.

### ***Informal workplace learning in small business***

Murphy and Young (1995b) reported that owners/managers learn much of what they know informally. Some of this informal learning is intentional but much of it is accidental, that is to say it occurs unintentionally (this is analogous to incidental learning described by Watkins & Marsick, 1992). Rowden and Ahmad (1999) surveyed a group of 228 Malaysian business owners, supervisors, administrators, secretaries, and production workers. Results indicated that 57% engaged in formal workplace learning, 63% engaged in informal workplace learning and 71% engaged in incidental workplace learning activities. Informal learning in the workplace by owners/managers is quite important and is valued. For example, Coyle and Ellinger (2001) interviewed five women entrepreneurs all of whom had operated their small businesses for at least three years. These entrepreneurs had certain beliefs about learning (i.e., it is continuous and central to growth, no learning obstacle is too difficult to overcome, and learning is self initiated and self-determined) and they valued knowledge.

The small business context is a key issue in terms of owners/managers' learning (Gibb, 1997; Raffo, Lovatt, Banks, & Connor, 2000). Context is seen as an invisible construct, a filter, consisting of culture, communication and learning, through which information passes, is processed and interpreted and developed into knowledge. This context impacts on learning and must be understood and acknowledged, particularly by small business advisors, if learning is to take place (Dalley & Hamilton, 2000), a point echoed by Raffo et al. (2000). However, it is not only the internal context that is important, but also, the external context, including the economic, political and legal systems and broader challenges faced by owner/managers, that must be considered (Cseh, 1999; Cseh, Watkins, & Marsick, 1999).

Further, Coyle and Ellinger (2001) and Fenwick and Hutton (2000) concluded that current models of informal workplace learning do not sufficiently account for differences in context experienced by women small business owners.

What is the extent to which owners/managers in Nova Scotia engage in informal learning in the workplace? What are the context factors and how do they impact on the owners/managers' learning?

### ***Strategies for informal workplace learning***

Informal learning can occur in many ways, for example, through observation of others (Hara, 2001; Lohman, Wang, & Woolf, 1996), trying to complete new tasks (Lohman, Wang, & Woolf, 1996), by seeking information from coworkers (Hara, 2001; Lohman, Wang, & Woolf, 1996) or by working in teams (Day, 1998). Other strategies include mentoring (Cofer, 2000; Darwin, 2000), networking (Doyle & Young, 2001), reflection (Hara, 2001), practice (Hara, 2001), and career development and planning (Cofer, 2000). Hara (2001) has also argued for the development of communities of practice to blend the formal and informal learning of professionals.

Learning in general in small business often occurs as a result of people working with others (Penn, Ang'wa, Forster, Heydon, & Richardson, 1998). For small business owners/managers in particular, learning is highly interpersonal in nature, they relied on their links to experienced others, that is the people in their personal and professional networks, for much of the knowledge they acquired (Coyle and Ellinger, 2001; Cseh, 1999; Fenwick & Hutton, 2000; Murphy & Young, 1995b; Raffo, Lovatt, Banks, & O'Connor, 2000). They have also used informal learning strategies such as application of past learning and experience (Coyle &

Ellinger, 2001; Cseh, 1999), mentoring (Coyle & Ellinger, 2001; Raffo et al., 2000) and intuition (Coyle & Ellinger, 2001). Reading (Cseh, 1999; Fenwick & Hutton, 2000) and field trips and market research are other strategies used (Cseh, 1999) along with informal trial and error (Coyle & Ellinger, 2001; Fenwick & Hutton, 2000, Raffo et al., 2000). Coyle and Ellinger (2001) and Fenwick and Hutton (2000) concluded that the learning strategies of women entrepreneurs tend to be relationship oriented. Implicit in their work is that strategies of men entrepreneurs are different from those of women.

What are the informal workplace learning strategies of small business owners/managers? Do strategies differ across genders?

### ***Outcomes of informal learning***

The outcomes of informal learning have been typified in several ways. For example, employees in an insurance-services firm learned job and organization information (Lohman, Wang, & Woolf, 1996). Day (1998) described four taxonomies of informal learning including practical skills, intrapersonal skills, interpersonal skills, and cultural awareness. Hara (2001), in studying the learning of lawyers differentiated between "book knowledge" (i.e., general, but explicit, technical, and factual knowledge gained at school and in other formal arenas) and "practical knowledge" (i.e., contextualized knowledge that is often tacit and that is gained from and used in practice).

In terms of small business, Cseh (1999) found that owners/managers learned many things, including knowledge about, themselves as individuals, business, relationships, employees and the profession. Fenwick and Hutton (2000) reported that women entrepreneurs produce two kinds of knowledge in their practice, practical business knowledge (e.g., finance, marketing) and personal knowledge (e.g., knowing their

own abilities and developing other abilities). However, these studies did not explore any links between informal learning and impact on the business.

What are the outcomes of the informal workplace learning of owners/managers? Further, what are the impacts of learning, if any, on the business?

### ***Methodology***

The methodology was qualitative and exploratory in nature and examined a number of case studies based to some extent on procedures outlined in Lofland and Lofland (1984). The case study was the preferred strategy in this research for several reasons: 1) questions of "what" "how", and "why" regarding informal workplace learning are being examined, 2) the investigators had little or no control over events within the sites to be studied, and 3) events in a real-life context were the study's focal point (Yin, 1984). The basic procedure was multi-site, qualitative research that permitted in-depth description of specific cases and "cross-site comparisons without necessarily sacrificing within-site understanding" (Herriot & Firestone, 1983, p. 14).

In-depth interviews with small business owners/managers in the Halifax Regional Municipality (a major financial, government, retail, industrial, military, university and health-care center in the Atlantic provinces of Canada) were completed using an interview guide consisting of open-ended and closed-ended questions to determine select demographic and business information as well as issues related to informal workplace learning. Interviews took approximately 60-90 minutes and were tape-recorded (with one exception). All interviews were transcribed verbatim and tapes and transcripts are kept in a locked filing cabinet in the office of the first author. Selection was based on the notion of

maximum variation sampling (Lincoln and Guba, 1985) and interviews were completed with six men and women from a broad cross section of the small-business community

### ***Participants***

Participants have been given pseudonyms to protect their identities and their businesses are briefly described below:

#1 - Alan has been operating a retail business (magazines, newspapers and convenience goods) for seven years, has 2 part-time employees and has sales between \$1,000,000 and \$2,000,000 per year.

#2 - Brenda has operated a food manufacturing business for five and one-half years. She has six full-time, four part-time and four contingent employees and her business has sales between \$250,000 and \$499,999 per year.

#3 - Carol has operated a multi-faceted business engaged in wholesale, retail, manufacturing and construction for over eight years. In total she has eight full-time employees, three part-time employees and three employees who are contingent. Yearly sales for this business are between \$500,000 and \$999,999.

#4 - David has operated as a finish contractor in the construction industry for two years. He has no employees, although he partners with other contractors on larger jobs, and has sales off less than \$ 100,000 per year.

#5 - Eileen has operated a retail business (specialty clothing) for over 20 years. She has six full-time, 6 part-time and 3 contingent employees and has annual sales between \$1,000,000 and \$2,000,000.

#6 - Frank owns and operates a restaurant and lounge. He has been in business for at least seven years, has one full-time and three part

time employees, and has yearly sales between \$250,000 and \$499,000.

### ***Results and Discussion***

The first guiding question examined the extent to which owners/managers engage in informal learning in the workplace. The second part of this first question examined context factors and how they impact on workplace learning. Much of what owners/managers learn in the workplace is informal in nature, a finding consistent with other studies (e.g., Murphy & Young, 1995b; Rowden & Ahmad, 1999) and the following responses are quite typical. Alan has participated in no formal learning activities since opening his business and relies on informal learning, and it is a matter of as he says, "No, no it's learn as I go". Carol stated, "It's an experiential thing ... So I think it's really maybe a little bit of a knee jerk reaction to just coping day to day." Carol also learns from others in her field, "...something you could learn at a conference or from a colleague informally, so I would say that probably 90% of my learning is that road." Frank indicated that "... I think everything I have learned ... is just day-to-day experiences."

This should not suggest that formal learning activities are not an important element of workplace learning. Although Alan and Carol have not participated in formal learning activities since starting their businesses, the others all had and these formal learning activities seem quite important to some overall management development, as suggested by Murphy and Young (1995a). For example, Brenda participates in formal industry-related learning activities at least ten or more times per year, "Not so much the university courses anymore, really stuff more related to the industry that I'm in ... I don't originate from the food industry so CFSEA specifically I found was really helpful in ..., for me to get an education about how the food industry works

and who the players are." David has continued taking a variety of formal courses related directly to technical skills involving "tiling and woodworking." Eileen participated in entrepreneurship courses, groups, and learning circles and viewed the formal training programs as "a venue where I could confirm what I was learning and knowing on a daily basis". Frank had participated in a required industry program related to liquor licensing, "It was a licensing requirement, an extremely helpful course ... how I am responsible when a patron comes in and picks up a glass."

A long-standing criticism of formal courses is that they do not satisfy the wants and needs of owners/managers (see for example, Peterson & Douglas, 1979), a sentiment highlighted by Eileen who commented on institutionally-based courses that, "...formalized courses have not really satisfied me that much like they seem to be not as ... I don't know I guess it would depend on who is teaching them and how challenging they would be and how they were structured ... I have very little patience with chalk and talk ..." Further, Frank indicated, with respect to institutionally-based courses, that, "I either don't have time for it or it's not an interest or I look at the value of the course, the monetary cost and question whether it's going to give me a return on my business." However, formal and informal learning activities appear to be useful adjuncts to each other and indeed Alan did acknowledge that his degree did help by providing some information "on the basics." Finding the right mix of formal and informal workplace learning activities is something that those interested in the development of owners/managers and their businesses should examine more fully.

An important element of the workplace learning of owners/managers is the context. This study has attempted to explore contextual factors and how they impact owners/managers' learning. Certainly one key contextual element

is the business type or industry in which the firm operates, an issue made clear by a number of writers some years ago (see for example, Gasse & d'Amboise, 1981). This finding is borne out by the variety of things the respondents have learned as a function of operating their businesses (more fully discussed below). A second key context factor appears to be the individual's knowledge and skills brought to the business by the owner/manager as a function of formal and informal learning. For example, Alan and Brenda both completed formal programs in business, as did David who had also taken a program in entrepreneurship specifically designed to help new entrepreneurs establish new businesses. Frank, a formally trained chef obviously had a strong background in the technical side of the restaurant business. Indeed, one's formal learning background can be an important factor in determining what is learned informally and formally as the business evolves, but also how the learning takes place. For example, Alan found the accounting side of the business quite easy, "Accounting, well I just learned that at university however, he now needed to learn about marketing, an area he had a basis in because of his degree, but one in which he did not feel as comfortable as accounting, "I find the hard thing is to learn about advertising. Where's the best way to spend your money?" and for Frank, given his technical skills, restaurant operations were not difficult, it was managing the people that was more problematic for him, "I wish that I knew more about people..."

For the three women, their previous learning and knowledge and that of their partners seems to have had an impact on what they chose to learn once they started their business. The one woman (Brenda) with formal business education but no industry background centered her learning on industry knowledge and relationship building. The one with industry knowledge and no formal business knowledge (Carol) relied on her partners to provide

business knowledge and to keep up to date on industry developments. The one with neither industry knowledge nor formal business knowledge (Eileen) relied on her partner with a financial background and was a very active learner, formally and informally, in both entrepreneurship aspects and industry aspects. Interestingly the two who had emphasized the importance of dealing with money and keeping lean (Carol and Eileen) were the two who acknowledged financial difficulties and had no formal business background. The one who had the formal business background didn't mention that point when asked what she had learned. Also, Brenda, who stressed knowing when she needs help, has no partners while the two stressing team work and who emphasized that the team or team development were important, had partners. In other words, learning for them became a process of identifying the gaps and finding partners who possessed particular knowledge or skills or using formal or informal learning activities to fill the gaps.

Factors such as business or industry type and the types and depth and breadth of knowledge and skills developed (either formally or informally) prior to starting a business appear to be important context factors impacting not only on what is learned but how it is learned in the workplace. These context factors should be fully explored by providers of small business training and assistance to help ensure that the learning needed is determined early. It is likely that there are other context factors that impact on learning and these should be more fully explored in future research.

The second guiding question examined the informal workplace learning strategies of small business owners/managers. Results, which tend to be quite consistent with the findings of others (e.g., Coyle & Ellinger, 2001; Cseh, 1999; Penn, et al., 1998; Raffo et al., 2000), indicate that owners/managers employ a broad array of informal workplace learning strategies

including self-development (e.g., following the instructions), learning from coaches, colleagues and friends, partners, suppliers, others in the industry, experiences, surfing the internet, "sitting in" on electronic forums, reading, observing and trial and error. For example,

Alan - "... I just got the Simply accounting program and just ... it's pretty self explanatory how to use that. Follow the program, just learn one side and it has to come off the other side, it's pretty straight forward, once you know all your journal entries"

Brenda - "umm, it was fortunate that for me in that experience that through my banker I was connected with a personal business coach and it was my experience with that person that helped me turn things around. He helped me understand first and foremost that I can't do it all."

Carol - "We collaborate with people doing similar work and we learn a lot that way. So these are informal get togethers whether it be by e-mail or working on a project together."

David - has learned much of what he knows by "partnering with highly skilled others" and by experience although he says, I try to avoid trial and error." David surfs the net a lot and has used a number of forums to "find new products, techniques and situations."

Eileen - "...although I've never really had any formal business training, I sought the knowledge that I needed in many other ways ... I read, I have always read as much business stuff as I could get my hands on ... Other entrepreneurs, constantly ... I figured it out early that I needed to continue to seek people who knew more than I did ... putting myself in that situation, visiting other similar businesses and other types businesses." Eileen learned from suppliers, "yes, anybody in my industry, anybody, I mean from your customers."



Frank -- " ... everything was one little baby step and trying that out, if that worked then I would build on it."

The above findings suggest that owners/managers tend to use a mix of learning strategies, however, some have a much greater variety in their repertoire of strategies than do others. A reasonable suggestion is to help owners/managers become more familiar with the various learning strategies and help them develop them and not become overly reliant on one or two favored strategies.

The third guiding question for this study sought to determine the outcomes of the informal workplace learning of owners/managers. What is clear is that many different things have been learned. These can be typified in several ways, for example, business and technical skills. For Alan time -management, accounting, and customer relations were key and for David marketing, accounting, and technical skills (e.g. woodworking and tiling) are important. Eileen felt that, "...I think I've learned a lot of little things about business and about aspects of making things more effective" and Carol stated "There's an engineer colleague and friend of ours that definitely thinks the same way we do and just on a phone conversation today we're learning from each other on how to work with something as mundane as septic fields..."

Frank felt that "The challenge was accounting because I had no business background..."

These findings highlight the individuality of learning, that is each person learns and needs to learn things that are different from what others learn or need to learn, and are similar to previous research findings (e.g., Murphy, & Young, 1995b).

However, learning often transcended the typical business and technical issues and consistent with the findings of Cseh (1999), Day (1998), and Fenwick and Hutton (2000)

<sup>9</sup>  
<sup>7</sup>  
much about themselves. This learning about self is seen in terms of increasing flexibility and making speedy decisions, setting one's own direction, improving one's ability to learn about others, understanding one's relationship to money, and understanding what is rewarding.

Brenda - "...the key things I have learned have been really on a sort of personal level ....I can't do it all myself and that's a little bit scary but you certainly realize you can accomplish more than you ever would have anticipated ... I have learned to be flexible ... to make decisions and solve problems really quickly."

Carol - "One, the main thing for me is I am realizing that it would be difficult for me to march to someone else's beat of the drums."

David – "learning to size up customers – to minimize debt."

Eileen - "Well, I think I've learned a lot of little things about business and about aspects of making things more effective. Part of the journey has been a lot about uncovering a lot more self-knowledge ... I think

businesses keep giving me a tremendous insight into my relationship with money ..."

Frank - "Owning your own business is not as easy as working for somebody else, but the rewards, for me anyway, are greater than I can achieve for somebody else ... flexibility in schedules ... I have 100% control over who I am ..."

Further, owners/managers have learned about others, the importance of establishing and maintaining relationships, doing what they said they would do, and learning how to work with others. This focus on others tended to be a more dominant theme among the women than

the men. The sample is quite small and no definitive conclusions regarding differences between women and men owners/managers should be drawn at this point, however, this area seems one that requires further research.

Brenda - "Umm, one of the key things that I've learned in terms of my business is the value of relationships and those are relationships with suppliers, with customers, with employees, like with anybody who could be part of my business or people in the industry umm, I've realized that and it's not just about networking ... it's knowing people and what it is they and having them understand what you do and you may or may not be able to help that person and vice versa but somewhere along the line, that relationship is going to come back to you and I think tenfold to what I've often put in ... the relationships, is definitely the most important thing."

Carol - "...I have learned that you have to do what you said you are going to do in terms of keeping customers happy and contracts ... it takes a team cause we are constantly depending on each other, ... and for all of our approaches is just to keep lean you know."

Eileen - " ...I learned a lot about how to work with people in a business."

The previous research on learning has focused on identifying learning strategies and personal learning outcomes for business owners. There has been little research that has considered the impact of owners/managers' informal learning on the firm's performance. The interview results suggest that informal learning can have an impact on a variety of areas of firm performance, for example, having accounting up to date, accomplishing firm goals, knowing that the firm is on the right track, increasing quality and quantity of business, improving and maintaining customer service, and maintaining control.

Alan - "Oh yeah, my business got better as I started managing my time. Bills are paid on time, my accounting is all up to date so I get to spend time with my family so that's a good thing. Things weren't piling up and you weren't falling behind so you can get ahead and stay ahead."

Brenda - "so that's one of the things that it's helped me do is work on my business in a way where I am more focused, I accomplish goals that are going to move us forward and delegate some of the stuff that needs to be done...."

Carol - "Oh, well confidence that we can keep going, ah that we're doing the right thing, ahum, and probably some motivation or enthusiasm to spread out and take on a few more things..."

David - feels his learning has resulted in "more business, better quality of work produced by him, and it has opened more doors."

Eileen - feels that her joy of learning has been passed on to others in the organization and they have learned so much and " I can honestly say that not too many people have left without feeling that it was a good experience and I feel good about that .... So I think that that has absolutely carried through to how people feel as customers. People come in there and they feel, this is a place where people really like what they are doing, they enjoy being there, they like the feeling of the place, they're always very excited. This has resulted in increased customer loyalty and continually providing top notch service, ...you have to stay on top of your game."

Frank - "I can prioritize things and focus on high priorities, let the lower ones go or delegate either high or low, thus making my job a lot easier ... it's a much smoother flow ... by having me learn or choosing to learn all aspects

it allows me to have 100% control over everything ... I haven't relied on other people's expertise."

Informal workplace learning clearly is an important issue, owners/managers definitely learn about business, technical, intra-personal, and interpersonal things but an important result here is that the informal learning has a positive impact on management and firm performance.

### **Conclusions and future research directions**

A limitation of this paper is its small sample size. However, the findings of this study are noteworthy in that they have supported the findings of other researchers. Further, they have begun to examine in more detail the elements in the concept of learning context, the variety of learning strategies used, and the impact of learning on individuals and on firm performance. It is reasonable to suggest that those with interests in the development of small business, for example, small business institutes, universities, community colleges, banks and others more fully understand the notion of informal workplace learning and its contextual factors, strategies and outcomes. Also, formal learning activities could be more fully integrated with informal activities so that owners/managers can be assisted in becoming more effective learners and thus operate more effective businesses.

Future research should explore in greater numbers, greater diversity and greater detail this whole process of informal workplace learning, in particular various contexts, strategies and outcomes. Also, possible differences between women and men owners/managers represent an area that should be explored in more detail.

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# **An Electronic Spreadsheet Model for Scanning International Small Business Export Opportunities: The Case of the Shift Method**

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## **Introduction**

Assessment of market opportunities is an important aspect of international marketing. Every time a company decides to expand into foreign markets, it must systematically evaluate possible markets to identify the country or group of countries with the greatest opportunities. For exporting, screening is a preliminary stage in the assessment of international opportunities. Sami and Hill (1998), Cellich and Cavusgil (1995), Kumar, Stam and Joachimsthaler (1994), Miller (1993), Rao (1979), and Moyer (1968) have attempted to identify generic criteria or processes for potential foreign market selection as one factor of importance to a firm's exporting success. Root (1994) and Samli (1972) have recommended foreign country screening as a cost effective method of identifying potential markets. However, the process of evaluating worldwide opportunities is complicated for a number of reasons. Literature on the foreign country screening process has been contradictory. There is, however, little consensus on how it should be performed, what criteria to use to measure market potential, the relative importance of individual criteria, or how to apply the criteria to a given situation (Matthews, Duckwitz, Davies and Peloso, 1999). Also, Russow and Okoroafo (1996) highlight problems associated with using screening criteria and suggest that there is little consensus on which criteria to use. For example, Gross National Product per capita may unfairly bias countries with more industrialized economies. Researchers have attempted to define a small number of generic characteristics or factors that can be used to screen countries. Some of these factors are market size and growth (Stobaugh, 1969; Davidson, 1980). Unfortunately, each measure alone does not

reflect accurately the growth of market areas, since each is subject to limitations and certain biases. Absolute measures tend to conceal the differential growth rate of markets through the size of numbers. Specifically, absolute measures tend to overstate the growth of larger markets and tend to understate the growth of smaller markets. Conversely, percentage measures tend to distort growth by overstating the growth of smaller markets and understating the growth of larger markets. Furthermore, there are over 200 countries or territories in the world; obviously, it is difficult to examine all these opportunities. And, due to the number of countries and resource limitations of a small business, the initial screening process must be limited to the analysis of published data. Thus no completely satisfactory method has been devised to identify standard criteria (Russow and Okoroafo, 1996), nor for combining percentage and absolute changes, which can be used in screening a country for export opportunities. However, a method has been devised that makes it possible to measure relative size of gains or losses of market areas compared with the regional norm. This paper describes and exemplifies the use of this measure, the shift method (Perloff et. al., 1960).

One of the most useful areas of application for today's generation of microcomputer--based spreadsheets is local economic analysis. This paper explains how one method for describing changes in a region and country economies shift method - can be set up easily on an electronic spreadsheet and used to screen for international market opportunities. Rather than discuss the shift method in general, this paper will present an example constructed around a recent Small Business Institute case involving a client's desire to identify export opportunities in the South American market.

## The Shift Method - A Review

The shift Method is a relatively simple technique For analyzing changes in the structure of a local economy in relation to a larger reference economy. The use of the shift method requires the specification of three factors: (1) the geographic unit of analysis, (2) a variable that is to be used for measuring growth comparisons are to be made. For example, the total market may be a region, such as South America as a whole with the market areas defined as the thirteen countries of that region. The growth variable must be a single valued measure, such as population, imports, per capita income. Two or more factors that can be combined to produce a single value are population multiplied by per capita income resulting in the Gross Domestic Product of a country. The process of selecting target countries through the screening process requires that the companies identify the criteria to be used to differentiate desirable countries from the less countries (Root, 1994, p.33). Macro-indicators of market potential and growth are usually used in the first stage of the screening process, because the data are readily available and can be used to quickly eliminate countries with little or no potential demand (Douglas and Craig, 1983, pp. 306-325). Table 1 shows a summary of potential macro-indicators of market size.

See Table I

The macro-indicators focus on the total potential demand (population) and ability to afford a product (per capita income), the two variables used in this study. However, they are combined to form the growth variable Gross Domestic Product (GDP). It is obvious that potential market size and growth and purchasing power are important factors in selecting markets. The larger the potential demand for a product in a country, the more attractive it will be to a company. The time period for which

growth comparisons are to be made has no limitation **except possibly for the limitation associated** with the availability of the data.

### Definitions and Computations

The basic definitions and related computations for use of the shift technique will be described.

1. *Actual Change (Delta I i)*. The actual change of the growth variable in a given market is simply the difference in values from one time period to another.

**Actual Change = growth variable (at time period t) growth variable (at time period t-1)**

Where t is terminal time period, and t-1 is the initial time period for the analysis.

2. *Expected Change (E(I i))*. If a given market had grown at the rate achieved for all markets, the expected value of the growth variable at the end of the terminal time period is the product of the actual value for this market at the end of the initial time period and the rate of change for all markets. That is,

**Expected Value (time period t) = growth rate for all markets \* growth variable (time period t-1)**

Where the growth rate for all markets is equal to the ratio of the total value of the growth variable in the terminal period to the corresponding total value of the growth variable in the initial time period.

$$\text{Growth Rate for All markets} = \frac{\text{Sum of growth variable (time period t)}}{\text{Sum of growth variable (time period t-1)}}$$

The expected change in the value of the growth variable for a particular market in a given time period is the difference between the expected value and the actual value for this market at the end of the initial time period. Thus

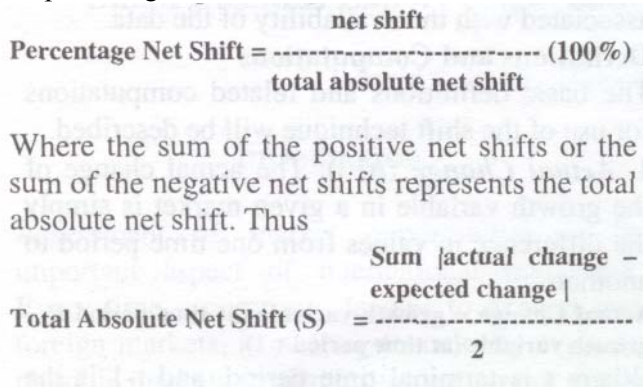
**Expected Change = expected value (time period t) growth variable (time period t-1)**

3. *Net Shift (N i)*. The difference between the actual change and the expected change for a given market is the net shift. Thus

**Net Shift = actual change - expected change**

4. *Percentage Net Shift (P i)*. The relative gain or loss in the value of a growth variable for a

particular market in a given time period is defined as the percentage net shift. Therefore:



Developing the Shift Method Template

Figure I shows template columns A through L and rows 1-22. The market (country) names are in column A. The variables of interest, population for 1990 and 2000 are entered in columns B and C, and per capita income for 1990 and 2000 are entered in columns D and E, respectfully. All the information included in columns A through E must be entered by the analyst. Column F and G represents the growth variable GDP for 1990 and 2000, respectfully. Columns H through L include the actual change (A*i*), expected change (E*i*), net shift (N*i*), total absolute net shift (S), and the percentage net shift (P*i*), as calculated from the data shown in columns F and G using Excel's "formula" commands. The analyst must enter the appropriate formulas in columns F - L only once. Then, using Excel's "C(opy)" command, the analyst can duplicate the appropriate formula for each column.

See Figure I

Similar analysis could be undertaken, for example, using per capita income as the growth variable. In this case the analyst must make minor adjustments to the template. Since columns D and E contain the per capita income data, the total growth rate calculation must be adjusted to reflect the new data. Therefore column C22's formula would become

=E20/D20. Two other adjustments need to be made. The actual change formula in column H9 would now be =E9-D9, and the expected change formula in column 19 would be =D9\*(C\$22-1).

Application of the Shift Method

The following discussion illustrates the way in which a shift method can be used by a small business interested in expanding to the South American market. The shift method will be used in this situation to screen for high export opportunity markets that will be used for in-depth analysis at the next stage of the evaluation process. The growth in GDP from 1990 to 2000 for each of the South American countries is used to illustrate the shift method.

One of the biggest challenges of doing international research is the availability of data. In addition, the data should be as recent as possible, especially if the concern is to identify small business export opportunities. Only in this way can the potential exporter be in a better position to identify the markets for closer study.

Bearing in mind the above considerations, the data for this study were obtained from two main sources. The 1990 and 2000 population data was obtained from the U.S. Bureau of the Census, International Data Base while the 1990 and 2000 per capita income data were obtained from the International Monetary Fund's The World Economic Outlook Database. Some countries had to be discarded from the calculations due to the lack of enough data (Guyana and French Guiana). In the illustration used in this paper, 11 countries did have enough data. Figure 2 shows the results of the shift method analysis.

See Figure 2

For the ten-year period, the total absolute increase in GDP for these eleven countries was approximately \$491 billion (column H). The expected change in the value of GDP for each country from 1990 to 2000, using the total average rate, is shown in Figure 2 (column 1).



The expected value changes varied considerable from the actual changes. The net shifts (column J) reveal that the expected value changes of some countries were greater than the expected growth value; for others the values were below the expected levels.

The sum of the positive or the negative shifts is approximately \$145 billion (column K). This figure indicates the degree of the total variation from the expected values. The distribution of this variation is shown by the amount of the total positive and negative variation accounted for by each country and is expressed by the percentage net shift. This figure is derived by dividing each net shift value by the amount of the total variation, that is, the total absolute net shift. The percentage net shift reflects the relative size of the gain or loss of each country (column L). Three of the 11 countries experienced negative percentage net shifts. One of these countries, Brazil, accounted for almost 96 percent of the total negative shift (Table 2). Correspondingly, eight countries experienced positive percentage net shifts. One country had almost 38 percent of the total positive percentage net shift.

The results of the shift method suggest that Argentina is the country with the greatest market potential, since it has the greatest positive net shift in the South American market over the 1990-2000 time period. Also of interest may be Venezuela with the second largest positive net shift. These two countries accounted for 65 percent of the net shift.

See Table 2

**Discussion and Conclusion**

The results of the shift method indicated that there would be trade opportunities for the small business exporter Argentina and to a lesser extend Venezuela. Now that countries have been ruled out from further consideration, management must evaluate the countries on the short list to determine the economic, political,

social, competitive, and profitability factors associated with serving each of the remaining countries. However, any single analytical method, such as the shift method, may be deficient in some respect and therefore subject to several caveats which must be understood before applying this technique. First, the analysis only studies two sets of data from a specified time frame, and the time frame selected can be critical. The selection of the time frame must be long enough to take into consideration economic cycle changes, but not so long that it may conceal meaningful trends within the economic cycle. Green and Allaway (1985) suggest a series of shift method analyses. Stating with a long time frame, of say, 15 to 20 years and then examine a number of shifts within that long time frame. A second concern of the model is that it does not take into consideration qualitative factors such as changes in government's policy or effects of outside economic forces that could affect the outcomes of the net shifts. Green and Allaway (1985) suggest that if a shift analysis were run, foe example, in a time frame of 1972-1979 instead of 1974-1979, the OPEC price rises of 1973 would appear to dominate the 1972-1979 shifts. Once again, indicating that a suitable time frame is of the utmost importance and the analyst should concentrate on choosing an appropriate set of base years and running a series of the analysis. Third, the shift technique does not explain why GDP in a country is growing at a rate faster than the average growth rate of GDP in the total market (region). The analysis merely highlights to the firm that attention should be focused on a market that is ranked highly in terms of net shift. However, such selection (without providing an explanation) is sufficient for the firm, since the objective is to screen and identify opportunities for further study and analysis where additional qualitative and quantitative factors could be considered. For instance, such an in-depth analysis can follow the framework of Keegan's (1999) "Global Business Intelligence System." Each of the

items in this framework is relevant to the needs of the (new) exporter.

Notwithstanding the above cautionary notes, the shift method does take into consideration the fact that if absolute and relative measure were to be used they tend to distort the picture of market growth, as mentioned earlier in the paper. Demonstration of this point can be seen in Figure 2. For example, the absolute growth in GDP for Brazil from 1990 to 2000 ranked first in South America. Suriname ranked last in absolute increase in GDP in the same time period. Yet when examined for percentage increase in GDP from 1990 to 2000 Brazil ranked tenth and Suriname ranked fifth. Similarly, from 1990 to 2000 the percentage increase in GDP in Brazil (32% and Ecuador (29.6%) were approximately the same. Yet it would be erroneous to assume that the actual changes in GDP for these two countries were the same (Figure 2). The actual change in GDP for Brazil was more than 48 times larger than that of Ecuador.

The shift method does not provide a solution for combining absolute and percentage changes. However, it does avoid the distortion inherent in the other two methods. Furthermore, by measuring the relative size of the gains or losses of the market areas vis-à-vis the regional growth norm, it provides a perspective of growth that the other two methods lack. The shift method can be useful for the small business exporter during the initial screening stage of export opportunity analysis. The technique can be used to reduce a large number of export market alternatives to a relatively small set of markets that can be subjected to a more in-depth analysis. By simplifying data entry and routine calculations procedures, electronic spreadsheets, like Excel, open up new analytical frontiers for the small business manager. Given a working knowledge of how to use a spreadsheet, the type of analysis suggested in this paper can be undertaken in a reasonable period of time. The shift method is relatively easy to use and the small business exporter can

update the results with new information obtained by using the spreadsheet template. In this way, the small business exporter can then update the knowledge of trade opportunities on a regular basis.

Contact author for spreadsheet templates.

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Table 1. Macro-Indicators of Market Size

***Geography Indicators***

Size of the country, in terms of geographic area

Climatic conditions

Topological characteristics

***Demographic Characteristics***

Total population

Population Growth rate

Age distribution of the population

Degree of population density

***Economic Characteristics***

Total gross national product

Per capita gross national product

Per capita income (also growth rate)

Personal or household disposable income

Income distribution

Table 2: Major Percentage Net Shifts Among the South American Countries

Country	Negative Percentage Net Shift	Country	Positive Percentage Net Shift
Brazil	96.99%	Argentina	37.95%
Ecuador	2.35	Venezuela	27.62
Paraguay	.66	Chile	13.85
		Columbia	11.15
		Peru	5.66
		Uruguay	3.47
		Bolivia	.22
		Suriname	.08

# Estimating Retail Sales Suppressed by the Census Bureau Using Median Polish

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## ABSTRACT

*Retail Sales data provided by the Census Bureau is increasingly incomplete because of the disclosure rule prohibiting release of data that would reveal the sales for individual retail establishments. Non-reported sales at the county level in Minnesota grew from 1.5% in 1948 to 28.8% in 1997. It is most problematic for sparsely populated counties. In Minnesota, Clearwater, Cook, Mahnomon and Nicollet counties two-thirds of the sales categories were suppressed. The problem is most acute for miscellaneous and general merchandise store categories where over 65% of the sales values were suppressed. The recent increase in the incidence of suppression is largely the result of the rapid decline in the number of stores overall and the rapid increase in large general merchandise discount stores.*

*In this study, the Exploratory Data Analysis technique median polish was used to estimate the value of sales in suppressed categories. EDA produces a robust, additive model that estimates sales in a category as a function of the general importance of the category and the importance of the county in all retail categories. Since total retail sales for the county is available even when some of the categories are suppressed, this can be used to improve the estimates further. The technique is generally applicable for all states and could be extended to deal with data suppression in other Census data.*

## Background

Retail Census data, especially sales, are important to community planners, retailers and

academic researchers. Community planners use Census data to determine their community's retail sales, retail mix, and sales capture rate as well as compare it to competing and similar sized communities. As such, these data provide longitudinal and cross-sectional profiles of a community's retail evolution. They also provide benchmarks and can be used to evaluate the strengths and weaknesses in a community's retail economic base. Existing and prospective retailers can use the Census sales data to determine market potential, market share, and market performance over time as well as sales for an area that can be compared to other markets. These data can then be used to determine the potential for store expansion, and the need for adding stores and closing stores. Academic researchers use retail Census data in the classroom, case studies, and empirical studies involving various statistical and modeling techniques. In fact, the research reported here arose out of a need to have complete retail sales data in order to do a statistical analysis of retail sales data from the Census.

Retail sales data is collected and reported by the Census Bureau for retailers in the years ending in two and seven. The Census reports the number of establishment, sales, and employees for 12 North American Industry Classification System (NAICS) categories starting with urban places of 2,500 persons or more. Federal law requires suppression of data where it is possible to determine a specific establishments data.

### *Suppression policy*

Doyle and her colleagues (2001, p. 1) note that, "protecting confidentiality necessitates perturbing or summarizing the data in some fashion so that the individual respondent cannot be identified. Greater protection of confidentiality means that the data, which cost so much to collect and produce, are likely to become less valuable."

They note (p. 3) that governmental data sources "take steps to modify or suppress information that might identify an individual either directly or indirectly before they make it available to the public for analysis." The technique used in census summary reports is primary and secondary cell suppression (p. 5). "Primary cell suppression is withholding information in a cell because its publication would explicitly or implicitly reveal confidential or sensitive information. When a table contains cells that represent sums of either rows or columns, primary cell suppression alone does not always protect the confidential data. Original values of primary cells may be determined exactly or within a narrow range through subtraction. When this occurs, it is necessary to perform complimentary cell suppression to protect the primary suppressions from disclosure."

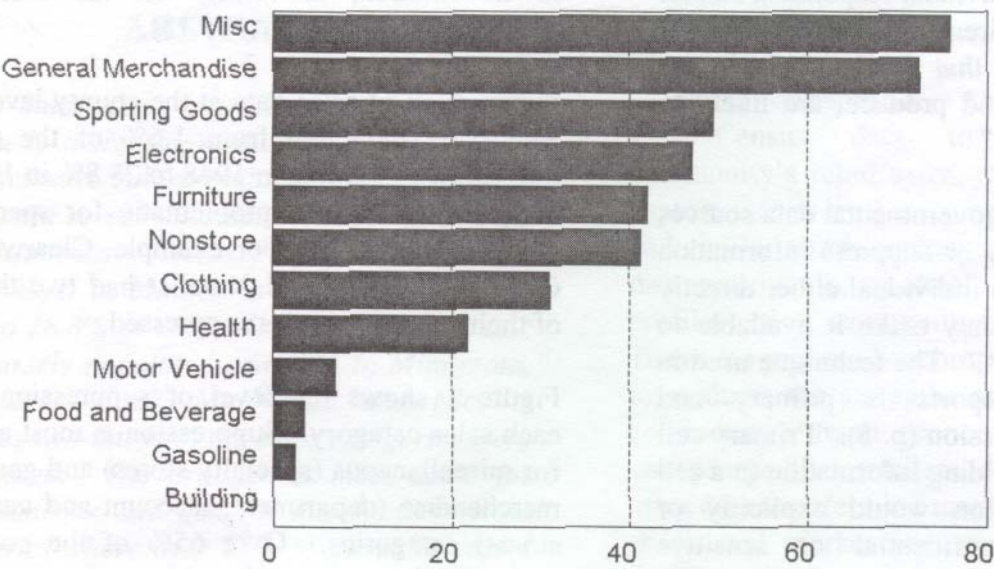
The rights of the data analyst are balanced with the rights of the respondent, but "the natural tendency of statistical agencies, when faced with uncertainty about the impact of the release of information, is to err on the side of protecting confidentiality (p.13)."

Suppression of sales data at the county level in Minnesota increased from 1.5% of the total number of categories in 1948 to 28.8% in 1997. Suppression is most problematic for sparsely populated counties. For example, Clearwater, Cook, Mahnomon and Nicollet had two-thirds of their sales categories suppressed.

Figure I shows the level of suppression for each sales category. Suppression is most acute for miscellaneous (specialty stores) and general merchandise (department, discount and variety stores) categories. Over 65% of the county sales for these categories were suppressed in 1997. The suppression problem is the result of rural depopulation, a decline in the number of stores, an increase in discount stores increasing concentration of store ownership and the expansion of the NAICS to 12 categories in the 1997 Census.

Figure 1

Percent Suppressed in Each Retail Category



Previous Research

Published research on estimating retail sales suppressed by the Census Bureau is lacking. It is likely that communities, retailers and academics have developed methods, but have chosen not to publish them. This may be because they have little interest in publishing them or prefer to keep their methods proprietary.

Several methods for estimating suppressed data have been reported in the literature. The first method, the "average sales per store" method, assumes that all stores whose sales have not been reported have equal sales. This method is subject to question, but when its basic assumptions can be justified, it is easy to use. A second method, the "town's share of its county's sales"

method, assumes that this share is relatively constant in the short run (Brennan, 1975 , 1976). This technique has been used by the author at work and in consulting for nearly three decades. While the technique is fairly simple, straightforward and accurate, it is very tedious and time-consuming.

A third technique, the Census's "hot-deck" method involves using the computer to search for a county similar to the one with suppressed data which has complete data but is similar in other respects. The technique substitutes the similar county's data for the missing data (U.S. Census Bureau, 1977).

Objective

The objective of this research was to provide reasonable estimates for suppressed retail sales

values for all 87 counties in Minnesota for 1997, The end product would provide a complete vector of data allowing the use of multivariate analytical techniques on the reported and estimated sales data.

## Methodology

Median Polish is an Exploratory Data Analysis (EDA) technique that examines an array of data and uses an iterative algorithm to arrive at (in the two-dimensional case) a set of row and column effects that can be used to estimate the original table of data. It does not require normality of the data values and it tolerates missing observations well.

Vellman (1981, p. 230) shows a model developed with median polish, which captures the differences in mortality rate based on tobacco usage and disease class. This model is two-dimensional and additive like the model reported in this paper. He is able to discuss the factors related to mortality and to note the areas where the model has a large residual (in this case, an excess of deaths for heavy smokers).

An alternate to the use of median polish would be a dummy variable regression, using the row and column categorical variables as predictors of the table value. This method would provide an  $R^2$  value and a test of statistical significance. It would require an assumption of normality (or at least single-peakedness) and would be sensitive to outliers. The

Multiple Classification Model (MCA) implemented in **SPSS** uses such an approach.

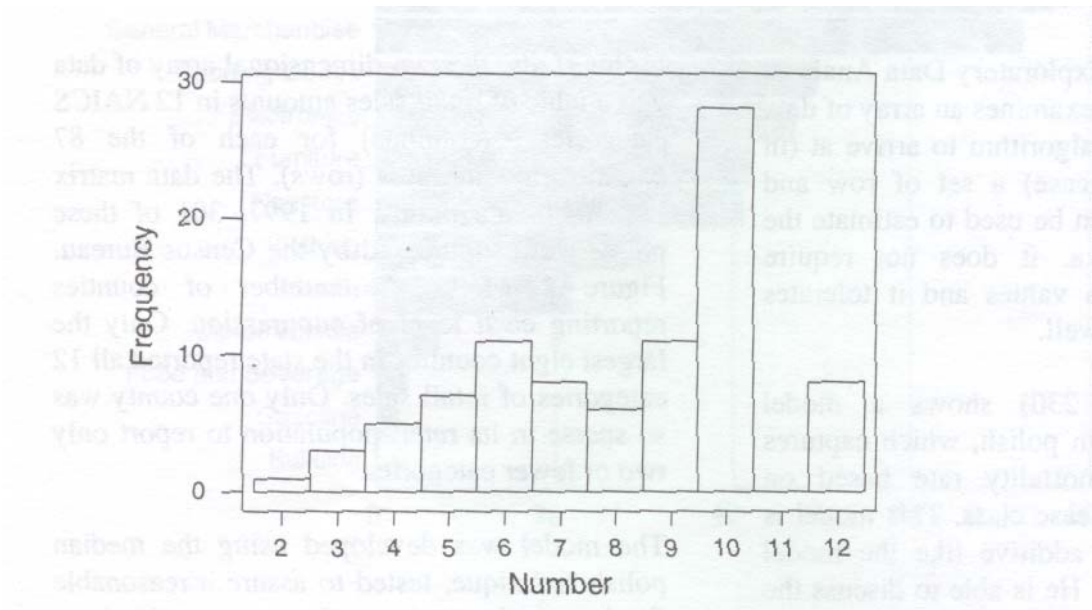
Median polish does not require these assumptions; however, it does require that the analyst examine the model to see that it is additive and that extreme residual values may be classified as true outliers and not artifacts of a poor fit. That examination has been made in this case.

In this study, the two-dimensional array of data was a table of retail sales amounts in 12 NAICS categories (columns) for each of the 87 counties in Minnesota (rows). The data matrix has 1044 data points. In 1997, 301 of these points were suppressed by the Census Bureau. Figure 2 shows the number of counties reporting each level of suppression. Only the largest eight counties in the state reported all 12 categories of retail sales. Only one county was so sparse in its retail population to report only two or fewer categories.

The model was developed using the median polish technique, tested to assure a reasonable fit, then used to estimate the suppressed values. For each county, the values of at least several major retail categories were known, as well as the actual total retail sales for the county. This information was used to force the county values, actual and estimated to sum to the known total.

The original data was transformed by taking the logarithm of each value, allowing an additive model to be developed where the coefficients referred to percentage rather than absolute change. The coefficients of the fitted model were transformed using the anti-log transform before reporting.

Figure 2  
Number of Categories Reported



*The Model*

The model was:

$$Y_{ij} = G C_i N_j E_{ij}$$

Where:

$Y_{ij}$  = The value of the i-th sales category for county j.

$G$  = the grand multiplier needed to bring the table to the right scale,

$C_i$  = Multiplier for the i-th county (row),

$N_j$  = Multiplier for the NAICS category (row) being examined,

$E_{ij}$  = A multiplier representing the residual error. This value is to be minimized.

**Results**

Some county multipliers are shown in Figure 3. The dominance of Hennepin County, *which* includes Minneapolis, is evident, with retail sales in this row of the data matrix being 118 times the typical row. The smallest values were found in Lincoln County, averaging .222 of the typical value.

Figure 4 shows the multiplier for the NAICS categories. Here the high dollar value of automobiles and their fuel, gasoline, results in typical values in this category being, 6.4 times the values for other sales categories, on average, Frequent and substantial food purchases cause these values to be substantial also.

These coefficients were used to estimate the missing values. Then the estimated values were



scaled so they summed to the known total. The estimated values can be used in analysis as surrogates for the missing values. Since the missing values are truly unavailable, no  $R^2$  value can be computed, but the estimates are

probably close to the true values and may allow practical work to proceed involving small counties and sales categories which are frequently missing.

Figure 3  
**Selected County Multipliers**

.222	Lincoln (Smallest)	
.551	Aitkin (First Quartile)	
1.000	Isanti (Median)	
2.211	Itasca (Third Quartile)	
12.497	St. Louis	[Duluth Metro]
12.734	Steams	[St. Cloud Metro]
17.342	Anoka	[Twin Cities Metro]
26.728	Dakota	[Twin Cities Metro]
43.623	Ramsey	[Twin Cities Metro]
118.050	Hennepin (Largest)	[Twin Cities Metro]

Figure 4  
**NAICS Category Multipliers**

.41128	Electronics and Appliance
.43336	Miscellaneous
.43888	Sporting Goods, Hobby, Book, Music
.57576	Furniture and Home Furnishings
.61476	Clothing and Accessories
.93661	Health and Personal Care
1.06768	Nonstore
3.09889	General Merchandise
3.20175	Gasoline Stations
3.65094	Building Material, Garden Equipment
4.24017	Food and Beverage
6.41058	Motor Vehicle and Parts

### **Applications**

The median polish technique used in this study is applicable to other geographic areas including minor civil divisions, zip codes, metropolitan areas and states. It could also be used for other Censuses like wholesale trade and manufacturing where data suppression is mandated.

Similarly the technique could be used for income, demographic data, and other cases where data is missing for categories in population reports. The resulting sales estimates using this model should prove useful to urban planners, retailers, retail location analysts and academics.

## Future Research

Three avenues for future research are available. First, the authors plan to validate the modeling technique by withholding some known data values, replicating the process and verifying that the model produces reasonable estimates for the withheld values. This will allow a goodness of fit statistic to be computed. Second, they hope to apply the model to additional states and the United States as a whole in order to provide sales data to other users. Finally, the authors plan to apply the model to other levels of geography in order to provide greater vertical coverage of markets.

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# EXCEPTIONAL ENTREPRENEURS OF LOUISIANA: A CASE STUDY

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## Abstract

Women and various minorities are enjoying a growing share of the economic pie in America. One minority group that is receiving greater attention and assistance with economic development is America's disabled. This paper describes a program designed to assist the disabled with new business start-ups and provides a detailed profile of the individuals who have participated in the program.

## Introduction

The transformation of the U.S. economy is due to numerous factors such as rapid technology development and a strong focus on information. A critical factor in this change is the economic engine of small business. In 1997, there were 23.7 million corporations, partnerships, and proprietorships with fewer than 500 employees, up from 18,286,000 in 1987. Additionally, in 1997 there were 885,416 small firms, up from 748,000 in 1987, (State of Small Business, 1999). As reported by the U.S. Small Business Administration's Department of Advocacy, there were about 22.4 million small businesses in 2001. They employ over 51 percent the private-sector workers and provide two thirds to three-quarters of net new jobs.

Women are full or part owners of 9 million businesses and the primary owners in 5.4 million. number of women-owned businesses increased -16 percent from 1991 to 1997. In 1997, there were 1.2 million Hispanic firms, 820,000 African American owned firms, and 913,000 Asian and Pacific Islander-owned firms. Over the period 1992-97, Asian-owned and Hispanic-owned firms increased 30 percent, while African-American firms increased 26 percent. (Small Business by the Numbers, 2002).

Another significant, but often overlooked minority consists of persons with disabilities. According to the 1990 U.S. Census, 12.2 percent of persons with a work disability were self-employed compared to 7.8 percent of persons with no work disability (The Center for an Accessible Society, 2001).

## The Excellent Entrepreneurs in Louisiana Program (ExcEL)

Starting a business provides an opportunity for people with disabilities. With the Americans with Disabilities Act (ADA) providing the necessary framework, a number of non-profit organizations and local, state, and federal programs have been developed to support entrepreneurship education for persons with disabilities. One such program is the Excellent Entrepreneurs in Louisiana (ExcEL) program sponsored by the Louisiana Rehabilitation Services (LRS) and conducted through the Training, Resource, and Assistive-technological Center (TRAC) at the University of New Orleans.

The creation of the ExcEL program began with a focus on the philosophy and policy necessary for serving disabled Louisiana residents interested in self-employment. Prior to inception of the program, the policy of the Louisiana Rehabilitation Service (LRS) essentially consisted of a number of hurdles which all but guaranteed failure on the part of any disabled Louisiana resident wanting to start a new business. For example, the policy stated:

1. The client must present evidence of a record of success in the industry pertinent to the products and or services the client plans to offer.
2. The client must attend at least one workshop on small business development designed to develop and raise the management skills of small business owners.
3. The client must develop a business plan.

The logistics--who, where, when, how-- of meeting these requirements were not at all clear to anyone. Furthermore, the elapsed time it would take most consumers to meet these requirements was extensive and created a deterrent to LRS counselors who are rewarded for closing files rapidly. Most counselors know very little about running a business and are unable to provide much assistance to consumers. Consequently, consumers were reliant upon others to provide assistance, which was mostly hit and miss. Consumers trying to meet the LRS requirements might take years; consequently, they and their counselors were frustrated with this situation. The result has been a lack of encouragement and support from counselors for disabled Louisiana residents who wanted to start a business.

The ExcEL program was designed to dismantle existing hurdles and provide a seamless up-ramp for those disabled residents serious about starting a business. Creators of the program urged the leadership of the LRS to change its approach for providing assistance to the disabled with business start-ups. A three-part program was implemented to assist consumers through the entire start-up cycle, from conception to operation.

### ***Introductory Workshop***

The introductory workshop is a day and a half program, which takes place at the Training, Resource, and Assistive Technology Center on the University of New Orleans campus. During the workshop, consumers complete an assessment inventory (Entrepreneurial Quotient), review the basic components of a business, and participate in a series of exercises which require them to describe their product or service, their perceived target market, their proposed promotion plan, and their

Once the plan is completed, it is approved by the TRAC staff and a letter is issued to the consumer's counselor. The *third part* of the ExcEL program is essentially a follow-up function to assist consumers with unforeseen start-up problems

## **Unique Features of ExcEL**

plan to accommodate their disability. A major purpose of the introductory workshop is evaluation. First, it allows the TRAC staff the opportunity too further evaluate consumers and decide whether or not to invite them to attend an intensive workshop. It also affords the consumers the opportunity to realize the commitment involved if they continue in the ExcEL program. It is at this point that a number of consumers have withdrawn from participation or have been advised to do additional preparation.

### ***Intensive Workshop***

The intensive workshop is a two-week workshop which takes place at the TRAC facility. Organized meetings and activities are scheduled each day and consumers are given out-of-class assignments. The first week of the workshop addresses basic business concepts in finance, marketing, operations, legal issues and LRS policies and procedures. Expert practitioners are invited to address the class. Consumers are given a variety of exercises and practice opportunities to demonstrate their understanding of the basic concepts. The lectures and exercises are critical because they ensure that the consumers understand the content of their, business plans and how to implement them.

Week two is devoted to collecting information and writing a business plan. The consumers spend time collecting information in the library, on the internet, and in the field meeting with industry experts. They typically go through several iterations of information gathering as they write their business plans. Consumers provided a template on a computer disk which all them to easily assemble the information they gather. The TRAC staff assists the consumers as organize their information using the template.

Many features make the ExcEL program unique: program design (which has already discussed), services, funding, staff, and

### ***Services***

There are a number of assistance programs available to individuals interested in starting business offered by the regional Small Business

Development Centers (SBDC), Small Business Administration (SBA), Service Corps of Retired Executives (SCORE) and various state and local agencies. These organizations offer a fairly standard array of services, however, none addresses in depth the needs of those with disabilities.

### ***Funding***

There are considerable expenses involved in delivering the ExcEL program. The two-day Introductory Workshop and the two-week Intensive Workshop are in-residence programs. The Louisiana Rehabilitation Service covers all program expenses including course fees, materials, housing, meals (three meals daily), and round-trip transportation (from hometown to New Orleans)

### ***Program Staff***

One of the features of the ExcEL program, which contributes to its effectiveness, is the staff composition. Because the ExcEL program delivers business expertise to individuals with disabilities, the staff is a very effective collaboration of professional expertise from business and rehabilitation. The rehabilitation staff consists of licensed professionals who participate in assessing consumers, disabilities and providing accommodations when necessary. The business faculty members are primarily responsible for delivering all business training, including final evaluation of consumers' business plans.

## **ExcEL Participant Profile**

According to a member of the BOLD Consulting Group, "In the past small business experts thought specific personality characteristics determined if a person would be a successful entrepreneur. Lists of questions were used to ascertain if a person should become a business owner. However, there are serious problems with these lists of questions that make them useless, even detrimental. These lists of questions are not statistically validated, even for healthy populations. There is no proof that they predict the successful

outcome of a business venture or the capabilities of its owner." (Weiss-Doyel, 1999)

"While there are some specific characteristics and capabilities that are found in many successful entrepreneurs, there is no set formula for predetermining self-employment success. Many of the capabilities can be learned by a motivated person. Many personality characteristics can change if the person wants success with his or her business." (Weiss-Doyel, 1999)

According to those who study and measure personality, it is a relatively stable set of physical and mental characteristics that influence the ways in which an individual reacts to and interacts with others, most often described in terms of measurable traits exhibited by the individual's observable behavior. These characteristics are the product of interacting genetic and environmental influences. The "Big Five" dimensions of personality (extroversion, agreeableness, conscientiousness, emotional stability, openness) reveal a personality profile as unique as fingerprints. Consequently, personality experts are in agreement that the adult personality is extremely difficult, if not impossible, to change. (Robbins, 2001) So, despite Weiss-Doyle's condemnation of the predictability of paper and pencil inventories and the claim that personality characteristics can change, the experts would disagree. It is possible, however, for individuals to change their *behavior* to achieve certain goals if they are highly motivated.

Weiss-Doyel identifies the goals of entrepreneurial training and the knowledge and skills for successful entrepreneurship as *designing and developing the selected business, creativity, innovation and inventiveness, risk assessment and management, problem-solving, and strategic planning*.

One feature of the ExcEL program is the use of an off-the-shelf instrument called the Entrepreneurial Quotient. The EQ measures management skills, personality dimensions and overall entrepreneurial propensities. The measures of the EQ are extremely similar to the training goals

identified by Weiss-Doyel. (See Table 1.) The creators of the EQ (Wonderlic) developed normative data based on the responses of approximately 2500 successful entrepreneurs and operations executives. Documentation detailing the reliability and validity of the instrument is available from Wonderlic ([www.wonderlic.com](http://www.wonderlic.com)).

The EQ is administered to all ExcEL participants during the Introductory Workshop. After completing the 100-item instrument, individuals are provided a profile which is used to help them understand how their present managerial skills and personalities influence their propensities to engage in or avoid behaviors which might spell success or failure. The report allows individuals to compare themselves to the executive and entrepreneur profiles much the way aspiring golfers or basketball players might compare themselves to Tiger Wood or Michael Jordan. It is important to note that the EQ is used modestly as a learning tool, not a predictor of success.

Table I contains several sets of scores. The first column contains the average scores from the executives and entrepreneurs used by Wonderlic in the development of the instrument. The remaining three columns contain the average scores for three groups of ExcEL participants. The first set of scores is for the Completers, those individuals

who have actually been funded and started their businesses. The scores in the second column are for those individuals who are actively working on their business plans (In Progress), and have not yet moved to start-up. The final set of scores are for those individuals who have either voluntarily withdrawn or been removed from the program (Dropped).

Examination of the numbers in Table I indicates that the ExcEL participants are more deliberate and careful than their expert counterparts. Scores on time management, planning and goal orientation are well above the norm for the base scores, while scores on risk management and creativity are lower.

A review of the personality dimensions reveals that the ExcEL participants are more introverted than the experts. The most significant difference is the higher scores of participants on Thinking and Perceiving. This indicates that the participants are more cautious and methodical as they approach their businesses.

As more participants complete the EQ, a normative profile will be developed for the ExcEL program. This can be used to help the staff and the participants to make decisions about their pursuits.

Table 1 Entrepreneurial Quotient Mean Scores				
Measure	Executives/ Entrepreneurs	Completed	ExcEL Participants	
			In-progress	Withdrawn
Adaptability	100-66	33	31	38
Managerial Traits	100-71	29	35	34
Risk Tolerance	85	50	59	55
Time Management	68	84	75	82
Creativity	86	65	70	70
Strategic Thinking	85	72	72	73
Planning	55	79	68	74
Goal Orientation	47	73	58	69
Personality Traits	100-70	45	46	44
Extroversion	71	52	60	48
Intuition	67	33	38	37
Thinking	57	62	67	61
Perceiving	17	27	30	28
EQ Index	100-70	35	34	38

**Program Effectiveness**

The real test of any service program is the rate at which it successfully accomplishes its objectives. One objective of the ExcEL program is to evaluate individuals and their ideas for new startups. If this objective is properly met, the risk of failure is greatly reduced and the inappropriate investment of time, effort and money is reduced. Thus, if a consumer does not have the appropriate passion or a sound idea, and consequently does not start up a business, the program has succeeded. The ultimate objective of the ExcEL program is, of course, to approve consumers for the start-up of new businesses. In either case, the ExcEL program has been a success.

A total of 137 individuals have been approved to participate in the ExcEL program. Of that number, 62 percent have either voluntarily withdrawn or have been asked to withdraw until some conditions have been met. Twenty-eight percent of the individuals continued with the program and have started their businesses. A modest 10 percent are in progress. Table 2 shows a breakdown of the progress of the program participants

**Table 2**  
**Program Effectiveness**

Status	Number Percent	
Completed	38	28
Withdrawn	85	62
In-progress	14	10
Total Participant	137	100

The consumers have widely varied backgrounds. Some have college degrees while others do not have a high school diploma. The LRS bureaucracy creates some difficulty during implementation. The ExcEL staff is continuously archiving information for use by future consumers. Finally, some of the consumers get distracted or their plans are interrupted and the elapsed time to completion is longer than necessary.

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# Lessons from SBI: Restaurant Cost Control and Service

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The restaurant industry is characterized by intense competition, high cost of goods sold, high labor costs and low profit margins. New restaurants are likely to fail within the first year of business. It is estimated that 2 out of 3 restaurants fail within the first year due to a under capitalization, poor budgeting, and lack of control systems. Existing restaurants face continuous problems from both the external and internal environments however there are three ways a restaurant can increase sales:

- Get *new* Customers-
- *Take* Customers from Competitors
- ***Sell more*** to Current Customers

Getting new customers is difficult and requires significant advertising and promotional expense. Taking customers from competitors presents opportunities when competitors are not meeting the expectations of their customers. But when competitors are successful in satisfying customers they are likely to benefit through customer loyalty. Therefore, the best, and least expensive, potential for increased sales is through selling more to current customers. The primary method of increasing sales per customer and/or customer visits is by offering excellent service.

However, increased sales (revenues) do not always mean equal (or even any) increase in profit.  $Price = \$Costs + Profit$ , accordingly, cost management is crucial to restaurants. Over ten years of involvement as consultants and with The Small Business Institute has shown that restaurants have many of their problems in two areas: cost control and service. Small Business Institute projects have revealed problems with cost control in restaurants and those problems have led students to develop solutions. The problems and there resulting recommendations

for solution is the topic of this paper. In each of the cases used as examples below the students documented instances of problems in cost control and/or service made recommendations to solve those problems. General areas of cost management which merited attention include:

- Lower total cost of operations compared with competitors total costs
- Efficient and effective facilities Materials costs, including waste Efficient and effective equipment and machinery
- Efficient and effective inventory control systems
- Efficient and effective procedures: design, scheduling and quality control
- Efficient and effective maintenance policies

Most restaurant control systems are designed for employees and managers with high integrity. In reality, not all staff has this characteristic. As a result, owners and operators discourage theft by designing, implementing, and evaluating clear control systems. Security experts estimate that about five cents on every dollar spent in U.S. restaurants is lost to theft (Pavesic, 1998).

Student SBI team members working on Sally's Cornerstone Bakery conducted observational studies by visiting the business when the owner was not around so that they would not be recognized. There were three visits by individual team members accompanied by a friend. Each group ate in the dinning area of the restaurant and had the opportunity to try products and witness the behavior of employees. All participants found the products they tried to be high quality and the presentation was appealing. However, the



behavior of the employees was not highly regarded. On one visit the observer was had to wait 5 minutes while the employee behind the counter spoke (apparently to a friend) on the telephone. Another visit revealed an employee taking money from the cash drawer. Finally, students visiting while the owner was present found that a delivery person requested (strongly) that he be paid in cash and the owner complied. Later an employee asked to be paid in cash and the owner again complied.

These observations led to a careful analysis of the record keeping of the business and resulted in the students writing specific procedures for record keeping and payment of invoices and wages. Paying employees and suppliers in cash was especially problematic because there was no 'paper trail' for accounting (especially tax) records and material costs could not be calculated to create a reasonable pricing structure. Efforts at cost/price analysis revealed that Sally estimated costs based upon supermarket prices of raw materials and that Sally was not including her time and labor (she did all the preparation and baking) in the cost of products sold. As a result prices were low because they were calculated on very low costs and profits were adversely affected.

It should be noted that the owner of the business did not implement these recommendations and continued to pay employees and vendors in cash without keeping records of specific amounts and dates. Six months after the case was presented to the owner a disgruntled employee filed a grievance with the state labor board. The employee complained that he had worked but not been paid by the employer - Sally's Cornerstone Bakery. Fortunately, he only claimed three weeks wages because when the labor board requested documentation from Sally's Cornerstone Bakery, the owner stated that they didn't have any records of workers hours or receipts for payment. Immediately the board

ruled in favor of the former employee. A similar episode occurred when a supplier sent an invoice for several months worth of product that had been delivered to Sally's Cornerstone Bakery. The owner of Sally's Cornerstone Bakery responded to the supplier that the deliveries had been paid for in cash, but had no signed receipts from the delivery person. The supplier took the owner to court, unfortunately for the supplier, Sally's Cornerstone Bakery closed and the equipment and the owner "disappeared".

**Waste**

Observations of the "back" of the Redneck Bar and Grill revealed products that had been in the refrigerator past their expiration date or beyond reasonable freshness. (This was detected by repeat visits and marking packages so that turnover could be observed). The cause was inefficient ordering, poor menu planning and the result was excessive waste. In addition carelessness and employee error created a large amount of finished goods waste. The owner was not aware of the extent of the finished goods waste because it was dumped into traditional thick black plastic trash bags.

Recommendations to solve those problems included obvious solutions such as moving the freshest products to the back of the self, (first in, last out) and clearly identifying the expiration and /or date received on all perishable products so that products beyond reasonable freshness would be eliminated. A creative solution to the finished goods waste was use of clear plastic trash bags so that the owner/manager could see what was being discarded without sorting through trash and the employees would be more cognizant of what they were wasting.

Cost analysis of menu items sold by restaurants has been one of the most difficult areas for students. The owner and cook at Redneck Bar

and grill did not have any method of calculating costs and prices were set in a rather haphazard manner. The students reviewed all supplier invoices and calculated the amount per pound or ounce for the cost of food. Next the students calculated the amount of each item that went into each menu item and calculated food costs for those items. The results revealed that most food costs were greater than 50% of the price, and there was no consistency to the cost/price relationship. Studies indicated that food costs should run about 30-40%. (HRTA mini-series, 2000). The excessive waste increased these food costs at Redneck and, with factors for waste and shrinkage (employee's consumption) students could explain why the food costs (as indicated on the supplier invoices) exceed food revenues.

Technology offers important opportunities to solve problems of excessive costs.

If the students had access to the type of software recently by *Tibersoft*, which gives restaurant operators specific menu item costs, (HRTA mini-series 2000) then the cost-revenue analysis would have been easier to accomplish and the results more exact.

Use of computers can also aid in development of Internal controls are critical to any cost control design. They identify the authority and responsibilities of all members of the organization at every level. They also assist in the definition as to how cost objectives can be achieved. Many operations install a management information system (MIS) for data accumulation, preparation, analyzing, and reporting. MIS help establish clear and proper rules for consistent and prompt reporting. The benefits of MIS are numerous and can assist in creating the following:

1. budgets
2. standards of performance
3. personal policies
4. statistical analysis
5. physical safeguards

6. sales and production planning and forecasting
7. continuous follow-up and appraisal of employee's compliance to standards and activities.

MIS is a network for the generation and communication of pertinent and timely quantitative and qualitative information to all levels of management to be used for planning, directing and controlling the operations of an organization. The primary record of internal managerial accounting is the daily sales report. Some typical types of information to be found on such a report include register readings; customer counts; sales breakdowns by product type; payment type; errors in register use; information relating to external events (e.g. weather, community events, etc.); sales tax; deposit amount and depositor.

The interpretation of numbers is something an informed operator cannot delegate. Comprehension of figures comes only with constant review, a resulting familiarity from knowing the activities that caused them, and the understanding of what they should be, given the level of business activity. This understanding of puts the operator in control, with an awareness of significant variances from the standards, which identifies action to sustain the gain or correct the losses.

The word control is not particularly a comfortable term and implies limits or barriers. Its definition from the dictionary says it is a "process or function" that is used to regulate, verify, or check that which is accomplished through some method, device or system. In other words, control means to exercise authority over and to restrain. While this definition may sound cumbersome, every restaurant operation, regardless of size or method of service, should have implementation of a control system.

Cost control is more than just computing percentages and ratios; it involves making decisions after the information has been compiled and interpreted. Its purposes include:

1. Provide management with the information necessary to make day-to-day operational decisions
2. To monitor the efficiency of individuals and departments
3. To inform management of what expenses are being incurred, what incomes are being received, and whether they are within standards or budgets
4. To prevent fraud and theft by employees, guests, and purveyors
5. To be the basis for knowing where the business is going, not for discovering where it has been
6. To emphasize prevention, not correction
7. To maximize profits not minimize losses.

Excessive costs can be closely related to service quality and behavior of employees. Students working on *The Market and Cafe* case went individually to "shop". They visited the business when the owner was not around so that they would not be recognized. Their observations resulted in: detection of staff eating food while waiting on customers, waste through not listening to customers' menu selections, finding products that were improperly displayed (dog biscuits in open boxes in the cooler section with fresh produce), a cashier that left her station and the store unattended and spent 15 minutes outside smoking, employees eating products that had been taken off shelves, over 10 brands of white bread taking up shelf space, and products on shelves that were there beyond their expiration dates. These observations became an important source of recommendations for changes in: inventory control, product mix, store layout, employee handbook and store operations.

## *Service*

Perhaps the crucial area of operating a successful food services business is understanding and accepting a service orientation. Key to this orientation is anticipating the needs of the customer, before they need them. (HRTA, miniseries, 2000) In providing services for business clients restaurant employees should be willing to exceed the expectations of the customer not work only to the letter of the customer's expectations. Ms. Sequin illustrated the importance of satisfying the customer through anticipating their needs by citing examples from her own restaurant management experience. She discussed the need to make the single diner comfortable and "wanted" because restaurants often neglect single diners and if you make them important then you will generate repeat business and positive word of mouth publicity. (HRTA, miniseries, 2000).

Several SBI clients have not understood or adhered to the concept of "Creating Welcome" and have suffered customer complaints, dissatisfaction, loss of sales and even failure as a result. Northern Mountain Ski area did not provide easy access because the parking lot was full of holes and ruts and the signage was poor. Also in order to get to the ticket booths patrons had to walk across the path of skiers coming down the mountain. The restroom at the Restaurant of Northern Mountain was poorly maintained and did not appear clean and sanitary. All of the factors detracted from the image "a family ski area that Northern Mountain was trying to promote.

The failure to clean and maintain restrooms was also a problem with the Redneck Bar and Grill. A week after students began work on the project (Feb.1999) a student visited the establishment and found that the sink in the men's restroom had been torn off the wall. The owner was informed of that the next day and

repeatedly in the weeks that followed. The case was completed in May 1999 and the sink had not yet been repaired!!!

Problems with dealing with customer complaints were also significant in other business that SBI students have studied. Notably at Northern Mountain the ski lift broke down and left skiers stranded for as much two hours in freezing temperatures; only those people that went out of their way to complain were given a free lift ticket, no money was refunded. Northern Mountain also experienced considerable problems with the operation of their food and beverage service. The areas where food was served and eaten were not kept consistently clean, menu offerings were disjointed with little consistency from one day to the next. The revenue derived from the food services operation was not significant based upon the sales during the skiing season. However, if Northern Mountain wanted to become a "four-season destination" (their stated goal) then food services will become increasingly important. Given the problems that have been experienced in the past Northern Mountain's best option was to look into the prospect of outsourcing food services.

### ***Observation: Redneck Bar and Grill:***

*On February 18, I entered the Redneck Bar and Grille with a friend. It was 11:30 AM, and my first impression was that the employees had not turned on the lights yet, as the only light in the building was coming from the windows. We were unsure of where to sit, and were offered no assistance. There was not a sign to tell us to seat ourselves, but because no one was giving us instructions, we sat at one of the tables towards the back.*

*When I sat down, I had to grab a menu from another table because our table did not have one. Five minutes later the manager, Big Boss Man asked if we were going to eat. When we said yes, he told the cook to come and take our order. There was not a formal introduction (such as "Hello, my name is Todd, I will be your server today"), and the*

*cook stood there with a dirty T-shirt and jeans on, waiting for us to give him our order. I asked him to give us five more minutes because we had not decided. Ten minutes later, the cook came back to take our order. I asked him if any items from the dinner menu were available, and he said "No." with no explanation or apology. I ordered a chicken finger basket, and my friend ordered a cheeseburger with chips. We both ordered a soda with our meals, which Mr. Boss Man brought over promptly. Approximately 15 minutes later, the cook brought out our food along with a ketchup bottle. There was no salt or pepper on the table. I asked the cook for some silverware, and he told me "It's over there", pointing to silverware buckets in the corner. I got some silverware, but I was unhappy to find a dirty dishcloth on top of the silverware ... No one brought us our check, so I went to the bar to ask for it... The service rated on a scale of one to ten was perhaps a two and a half, the only positive remark I can make of it was that at least our waiter was not rude, he just appeared to not know what he was doing; after all, he was the cook. However, if I were not working on a project for this restaurant, it would have been the first, and definitely the last time I was a patron at the Redneck. The idea of telling a customer to get their own silverware, unless at a pizza house where all the silverware is laid out with the condiments, is unheard of; I was very unimpressed.*

Redneck Bar and grill could serve as an example of exactly what not to do to provide welcome for the customer. Observations by SBI team members revealed that when customers requested silverware they were told by the bartender to "get it yourself, that's not my job". Other observations revealed: (see also Appendix 1)

- Bartenders refusing to serve customers because the bartender was having a conversation with a friend
- Failure to check IDs at the door
- Waitresses serving free drinks to their friends
- College students being harassed by "locals" and no interference from employees

- Long waits for service and seating
- Frequent mistakes on food orders
- Negative comments by employees directed at customers
- No 'scripted' greeting by employees
- Employees hanging around, talking at the bar
- Complaints from customers were not addressed

As noted earlier achieving repeat business is a key to success and that it is easier (and less costly) to generate repeat business than attract new customers/clients. The following is a list of suggestion that is designed to improve the operation of a restaurant and increase customer satisfaction. (HRTA miniseries, 2000):

- Use of an Information sheet- providing place to include menu changes, employee evaluations, scheduling
- Call ahead program
- Lunch card- to stimulate sales - and tips, loss leader
- In house weekly newsletter- events, local happenings to identify to employee's periods of increased activity so that they could anticipate the types and demands of customers (tourists, locals).

As discussed above, several of the SBI clients did not grasp the importance of the concept "Creating Welcome" and making the customer feel valued. Recommendations to "Create Welcome" include:

- The notion that - Hospitality begins in the garage
- Verbal communications- being polite, courteous, pleasant
- Nonverbal communications- "no hands in pockets", smile
- Extras- suggests a competitor if you don't carry the designed menu item, satisfy special requests
- Its never just one – people eating alone should not be shunned
- What complaints really cost you- repeat business, word of mouth

- Learning from others- go to workshops about hospitality or restaurant industry, study competitors and use successful ideas
- Take pictures- to display and use for promotion
- Walk through the restaurant with your head up; don't ever say it's not my job-
- Answer is yes - what is the question

In conclusion the Small Business Institute case studies have provided a considerable amount of valuable information about cost control and service to share with restaurant owners, SBI directors and advisors and students in their process of working with local businesses through Small Business Institute

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# NEW OPTIONS FOR SMALL BUSINESSES: HEALTH INSURANCE PURCHASING COOPERATIVES

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## **Abstract**

Small businesses often are unable to offer health insurance to their employees, or are forced to limit such insurance offerings. In recent years, health insurance purchasing cooperative programs have become available to many small businesses, allowing them to offer health insurance to their employees for the first time, or to offer a greater choice of health insurance options to their employees. This paper provides a description and analysis of these programs, and provides recommendations to small business owners and to those who advise and assist such small businesses.

## **Introduction**

Only about one-half of all companies with fewer than ten employees offer health insurance to their workers. More than forty million Americans lack health insurance. And about 40 percent of these American who do not have health insurance work for firms with ten or less employees (California Health Care Foundation, 2002; Gabel, 2001).

These statistics clearly indicate a significant problem in our society. On one hand, the fact that so many Americans lack health insurance stands in contrast to virtually all other economic all y-developed nations, where the governments have been mandated by the people to ensure the provision of health care to most or all of the population. But on the other hand, in the United States, neither federal nor state health care policies guarantee health care to most Americans, and therefore employers are generally left with determining policy for their employees.

Until recently, small business owners maintained several basic options in dealing with the choices: do or do not offer health care insurance to some or all employees; and pay for none, some or all of the costs of any insurance that is offered. But recent trends have placed a greater pressure upon small business owners. As the issue of health care has moved into the forefront of public thinking, the pressure on small businesses to offer insurance to their employees has grown. And this pressure is further reinforced on individual employers as more and more competitors make health insurance available to their employees. Between 1998 and 2000, among companies with 3 to 9 workers, the percentage that offered health insurance as an employee benefit rose from 49% to 60%. Similarly, the percentage for companies with 3 to 199 workers rose from 54% to 67% (Miller, 2001).

At the same time, health care costs and corresponding health insurance premiums have been rising at a rate well above that of inflation. Nationally, insurance premiums rose 11 percent in 2001, and are expected to rise 13 percent in 2002. Net of whatever health care benefits received, Americans spent an average of \$4358 on health care in 1999, the most recent year for which such data is available. In comparison, the figure was \$1764 in the other 29 industrialized nations of the world (Connolly, 2002).

Thus small businesses are caught in a "health care squeeze." Small businesses must decide whether to provide health insurance to their employees. And for those small businesses that do provide such insurance, how should they respond to rising costs? They can absorb the rising costs within their business expenses, they can pass the costs on to their customers by raising prices of their goods or services, or they

can pass the costs on to their employees in higher employee contribution fees.

And a relatively new option to consider is that of the company joining a health insurance purchasing cooperative. This paper provides a description and analysis of this option, and provides recommendations to small business owners and to those who advise and assist such small businesses.

### **Health Insurance Purchasing Cooperatives**

Health insurance purchasing cooperatives are programs that are generally administered by government agencies or by private business associations. Qualified small businesses within the government's jurisdiction, or that are members of the association, are eligible to join the program and then offer health insurance benefits to their employees through the program.

More specifically, such programs allow employers the ability to offer their employees several choices of insurance plans and yet the employer is required to deal with only one source of health insurance and one provider to pay. The government agency or business association acts as the middleman between a group of insurance providers and the corresponding group of small businesses. Generally the insurers offer a variety of plan types, including HMO, EPO, POS and PPO alternatives. Often an employer can decide what it is willing to spend per employee, and the program will then provide a choice of health care insurance options and employee monthly payments that the employees can choose from (Wicks & Hall, 2000).

For example, in 2001 New York State established the "Healthy New York" health insurance program for small employers who had previously not provided group health insurance to their employees. Specific eligibility requirements for this program include:

The company must have 50 or fewer eligible employees

- One-third of the company's employees must earn \$31,000 or less
- The employer must not have provided group health insurance to employees within the past twelve months
- 50% of the eligible employees must choose to participate in the program, and at least one participant must earn \$31,000 or less
- The employer must pay at least 50% of the premium
- All employees earning \$31,000 or less must be offered coverage under the program
- The business must be located in New York State

Thus, this state-sponsored program aims to expand health insurance coverage by targeting small businesses that previously did not provide group health insurance to their employees.

An example of a somewhat different program is that provided by the Long Island Association, an association of the region's businesses, with member companies employing about half the total regional workforce. While similar to the "Healthy New York" program, all small employers on Long Island are eligible to join, even if they currently provide an employee group health insurance plan.

Other programs, in other locations, tend to be similar in nature to these two programs (HealthPass, 2002; Wicks & Hall, 2000; Yegian, Buchmueller, Smith & Monroe, 2000). While details of eligibility vary, almost all are aimed at smaller companies with lower-income workers.

### **Program Performance**

It would be expected that these health insurance purchasing cooperative programs would lead to a greater number of small businesses offering health insurance benefits to their employees, and thus a reduction in both health insurance costs and in the number of uninsured Americans. Yet most of the research to date indicates otherwise.

Several research studies (Long & Marquis, 2001; Wicks & Hall, 2000; Yegian et. al., 2000) have found that these programs have not significantly increased the number of small businesses, which offer health insurance benefits to their employees, nor have they increased the number of insured workers. Most small employers who joined the programs did so to improve the benefits to their companies and to their employees, rather than to provide health insurance for the first time.

The primary reason why this is so is that most programs do not offer insurance cost savings to employers. Whether a small business deals with one health insurance provider on its own, or whether it deals with several providers through a cooperative program, the insurance premiums are generally the same. Although one might think that insurance companies competing against one another in a cooperative program would compete with pricing (i.e. premiums), in fact health insurance is a highly regulated industry, and most state insurance regulations require premiums to be the same regardless of whether they are offered directly to an employer or indirectly through a cooperative program.

Therefore, small businesses that do join cooperative programs do so for non-financial reasons. They join these programs so that they can offer greater choice (in the number and type of plans) to their employees at no additional cost to the company. And many small businesses also are attracted to these programs by the ease, which they offer in identifying and dealing with insurance providers appropriate to their needs (Long & Marquis, 2000; Yegian et. al., 2000).

### **The Future**

Certainly these programs would be more beneficial, and attract more participating small businesses, if they could offer lower health insurance premiums as well. There are several ways in which programs of this nature might be able to lower health insurance costs, and reduce the number of uninsured American workers:

First, states could change their regulatory laws to allow health insurance providers to compete in pricing, by offering lower insurance premiums to those businesses that buy through insurance cooperatives. But such a move is opposed by the health insurance companies, and their industry lobbying strength and efforts have been successful in most states to maintain regulated pricing. California is one of the few states that has chosen to loosen regulations, and cooperative programs have been allowed to negotiate premiums with insurance providers. Unfortunately, most health insurance providers have chosen not to compete with each other through pricing negotiations, and the state's small businesses and small businesses' employees have benefited little from lowered premiums (Curtis, Neuschler & Forland, 2001).

Second, states could choose to use public funds to deal with this issue. Small-scale trials in Massachusetts and in Michigan have created state-subsidized group health insurance plans for small firms with low-income employees, thus enabling small businesses to offer health insurance to workers who previously were not offered any insurance, at moderate costs to both employers and employees. These trials are too recent to be evaluated for effectiveness yet. If they are found to be effective, then some progressive social policy advocate groups have proposed that such programs be federally supported and extended to all states. But, of course, all financial subsidy programs require taxes or other public revenues to offset costs, and the political prospects for such programs are weak (Rosenbaum, S., Borzi, P. & Smith, V., 2001).

Third, President Bush has recently included in his tax reduction plans a proposal to allow small businesses to pool together in a manner which would reduce the costs of employees' health care premiums. The details of the President's proposal were limited, and this would certainly require changes in individual state regulations (Reuters, 2002). Here too, such a program would have financial costs and



political implications, and the likelihood of such a program being implemented is not clear.

### **Recommendations for Small Businesses**

Small business owners, and those who advise and assist them, should make themselves aware of any health insurance purchasing cooperative programs for which their companies might be eligible. As discussed in this paper, different programs have different eligibility requirements, with regard to the number and wage levels of employees, employer contribution requirements, whether the company currently offers health insurance, and a minimum percentage of employee participation. Insurance rates available through any programs should be compared with rates available from direct dealings with providers. The range of insurance plans available through programs should be compared, and employees' preferences might be polled or otherwise determined. As discussed above, it is unlikely that a small business will reduce health insurance costs by joining a cooperative program, but the non-financial benefits to the company and to its employees may be of significant value.

For some small businesses, participation in such programs might prove beneficial; for other it might not. Certainly an astute small business owner should consider and evaluate these alternative sources of employee health insurance if they are available,

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# SBI and Community Development: A New Program and Paradigm

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## Introduction

The Small Business Institute™ Directors Association's (SBIDA) website claims that a benefit of the Small Business Institute (SBI) for colleges and universities is that "the SBI program is an excellent means for a university to provide meaningful community service." The mission of SBIDA also claims that SBI programs "enhance the relationship between faculty of schools with small business programs and the business community in developing educational programs that meet community needs." But how do they do this? And, why do they do what they do? This paper outlines two different programs and paradigms.

## ICIC and NBSN

In 1998, the lead article in the *Journal of Small Business Strategy* briefly described the Initiative for Competitive Inner-Cities (ICIC), a program initiated by Michael Porter of Harvard University in order to "create better linkages between the private sector and the inner-city economy" so that the "economic distress" of America's inner cities and the related problems of poverty and social problems can be addressed (Porter, 1998, p. 1); a second article briefly described ICIC's National Business School Network (NBSN) and compared NBSN to the Small Business Institute™ (SBI) (Dean and Taylor, 1998); a third article described SBI, calling SBI "High Impact Entrepreneurship Education (Matthews, 1998).

According to Porter, "efforts to provide education, housing, healthcare, and other needed services are essential," but "must be balanced with a concerted and realistic economic strategy focused on for-profit business and job

development. The necessity - and the real opportunity - is to create income and wealth by harnessing the power of market forces, rather than trying to defy them" and "the private sector must take a leading role in inner-city economic development" (Porter, 1998, p. 1).

Specifically, Porter suggests that a sustainable economic base in inner cities depends on:

- (1) private, for profit business development and investments based on economic self-interest and genuine competitive advantage;
- (2) recognizing and enhancing the inherent advantages of an inner-city location, and building on the base of existing companies;
- (3) making inner cities competitive as business locations and integrating these areas into the regional and national economy;
- (4) engaging the enormous resources of the private sector in market based activities; [and]
- (5) shifting the economic development paradigm from reducing poverty to creating income and wealth through business development (Porter, 1998, pp. 1, 2).

Porter calls for reducing poverty to creating income; from targeting residents' immediate needs to creating jobs; from providing only essential services, to providing essential services balanced with a "concerted and realistic economic strategy;" from "defying" market forces to "harnessing" them. His model, in effect, treats the inner city as if it were a trading block and economically it probably is, but economics is a lens that can limit our focus.

Dean and Taylor attempt to connect the vision of ICIC to a strategy involving urban graduate business schools; in effect attempting to

facilitate the movement of the invisible hand through the charter of their organization.

The pillars of [the National Business School Network] NBSN's charter are to: (1) engage America's urban business schools in directly contributing to the vitality of their surrounding communities; (2) stimulate relationships between business schools and inner-city companies; (3) expose the nation's future business leaders to business opportunities in inner-city areas; and (4), widen the research agenda to include inner-city companies and business issues (Dean and Taylor, 1998, p. 7).

Note that Dean and Taylor seek to motivate urban graduate business schools through self-interest by appealing to their immediate market. In return, by turning their market (students) into a rewarding product (employees), graduate business students will contribute to the vitality of the city, stimulate relationships with urban companies, prime future business leaders with urban opportunities, and generate data for research theses.

Dean and Taylor compare NBSN with SBI, claiming that these programs facilitate economic development because they deliver "value to small business clients" (Dean and Taylor, 1998, P. 11).

Again, the problem is seen through economic eyes. Because the problem is seen through economic eyes only, the remedies suggested may be untimely. A preliminary option is available, an option that sees "economic distress" as a symptom of a multi-disciplinary problem. This option is a program that involves undergraduate institutions as well as SBI programs, multi-disciplinary relationships, qualitative methodologies, and "relocation." The financier of this program is not private for-profit groups, but the U.S. Department of H.U.D.; specifically, H.U.D.'s Community Outreach

Partnership Centers (COPC), which finances partnerships between local business, community leaders, and colleges.

### **The COPC Program at Calvin College**

In October, 2001, Calvin College, a Christian liberal arts undergraduate institution, received a three-year \$400,000 grant from HUD's COPC program. The program is managed through the college's Service-Learning Center, which helps direct Calvin faculty and students to and in the Burton Heights neighborhood of Grand Rapids, Michigan.' COPC offers Calvin the opportunity to operate within the context of its mission, which is to prepare students to be "agents of renewal," by helping Calvin help and be helped by its local urban community.

The Calvin@Burton Heights partnership focuses on four important, but related, areas: housing, health, education, and business.

'The Burton Heights area reflects trends evident in many big cities: migration, urbanization, abandonment, and revitalization. For instance, the first settlers to the area were farmers and the first farmer was Barney Burton in 1833. The railroad came in 1868 and the streetcar in 1873. The first school arrived in 1857. By 1953, local businesses included 17 gas stations, 16 car dealers, 11 restaurants, 8 dentists, 7 clothing stores, 6 lounges, 5 auto repair shops, 3 lawyers, 3 jewelers, 2 theatres, 2 bowling alleys, etc. Up until the 1960s, the area was primarily Dutch-American. But in the 1960s, urban sprawl and "white flight" caused many resources to leave the community. By 1990, there were 9 restaurants, 7 grocery stores, 4 heating and cooling businesses, 4 music stores, 4 hardware stores, 3 pizza places, 3 sports stores, 3 clothing stores, 2 barbers, 2 furniture stores, 1 bowling alley, 1 bank, 1 dentist, etc. Today, Burton Heights is an "underserved" neighborhood that is 21% Anglo, 12% black, and 63% Hispanic, including many recent Hispanic immigrants.

Because the partnership focuses on four related areas, it is multi-disciplinary involving business, nursing, social work, education and other faculty and students.

While business faculty and students, using an SBI framework, (1) studied the feasibility of a holiday lighting project for the business district, (2) analyzed business owner attitudes toward safety, business district aesthetics, and other concerns, and customer attitudes toward perceived value, (3) investigated the business mix of the district in terms of residential demographics, (4) learned about consumer lifestyles, and (5) assessed employee educational needs, business faculty cannot provide the solution alone, nor can SBI teams. There are issues of health, family relationships, language and culture, and income that moderate the effects of economic solutions. Furthermore, there are two ways to implement solutions: macro and micro. While business faculty might, for instance, help make Burton Heights the Latino marketplace of Grand Rapids or spearhead efforts to pick up trash, the solution is building relationships with individual business owners and community organizations. Only relationships can span barriers unique to the inner city, barriers which impede economic strategies.

The long-term goal of the Calvin@ Burton Heights Partnership is community development; the means is building meaningful relationships, with the goal of helping the community help itself. To build relationships requires a physical presence in the neighborhood. To facilitate this, the partnership hired a bi-lingual and resident coordinator in order to "weave organizations and people together" (Timmermans).

To weave organizations and people, the COPC grant also provides release time for a business faculty member. His tasks include visiting all of the businesses, inviting the owners to business association meetings, collecting their stories for

a book, and, over-time, learning about business from the business owners' perspective so that he and his students can better help business owners in terms of economic strategies. To facilitate this process he has developed relationships with neighborhood associations, the local economic development corporation, city government, business professionals both inside and outside of the business district, and the local business association.

To put this into the context of ICIC and NSBN, while the long, long-term goal is still economic development, the intervening goal is relationship-building among equal partners, not experts and "victims."

### **Different Paradigms**

Collins and Porras (1994), in the seminal book *Built to Last*, claim that the difference between good organizations and great organizations is that great organizations distinguish their vision (which never change) from their operating practices and strategies (which change constantly in response to a changing world). This paper contends that vision and strategies ultimately rest on paradigms. A paradigm answers such fundamental questions as Who are we? What has gone wrong? What can we do to fix it? (Colson and Pearcey, 1999, p. xiii).

The paradigm of ICIC and NSBN seems to consist of the following. First, the program assumes that we are primarily economic beings, motivated by self-interest, for "investments in the inner city must be based on economic self-interest and genuine competitive advantage." NSBN sees the core purpose of SBI and similar programs as helping to create jobs and economic opportunity for they "will mitigate the need for large-scale social programs." Social programs, in other words, increase the weight the invisible hand must carry.

Second, what has gone wrong is that the weight has become too heavy: current and previous efforts at urban renewal have failed. These efforts have failed because they have targeted "immediate needs" and utilized essential services such as education, housing, healthcare in a manner not "balanced with a concerted and realistic economic strategy." Furthermore, these programs have relied on "artificial inducements, government mandates, and charity" focusing on reducing poverty versus creating wealth.

Third, the solution is "to harness the power of economic forces, instead of trying to defy them" in order to create wealth and income. The solution includes facilitating the movement of the invisible hand by utilizing urban graduate business schools, who can "contribute to the vitality of their surrounding communities."

The worldview of the Calvin@Burton Heights Partnership (C@BH) consists of the following. First, C@BH assumes that human beings have a strong need for relationships: people need to feel they belong to someone and to something.

Consider the following excerpts.

It is much easier to build a new prison or enact a new welfare law or give someone a handout than it is to develop the person. So far, we have settled for the impersonal and the bureaucratic. But, as we are seeing now, in the long run these Band-Aids will be much more expensive than we ever imagined.

I believe there has never been any serious thought given to a comprehensive community-development plan that enables the people to own their neighborhood. The economic development that flows from ownership would reward individual initiative, causing people to look inward instead of institutions "out there" (Perkins, 1993, p. 11).

People need relationships because they need to feel significant and important; people also need relationships to feel secure.

Second, the program assumes that what has gone wrong is that these needs aren't being met. They aren't being met for a variety of reasons. First, there is a "charity mentality," a mentality also criticized by Porter and the ICIC program. Second, there is "racial polarization," meaning that "race has divided us so efficiently into separate churches, neighborhoods, relationships, and agendas," that community development is greatly hindered. Third, there is a "victim mentality" and there is "selfdoubt," which can result from relationships that are one-sided. Fourth, there is social-economic polarization. According Ruby Payne (2001), and corroborated by a local human resources director of a firm that hires many Hispanic workers, there are hidden rules among the classes. People in different social-economic classes have different attitudes toward money, possessions, people, time and fate.

Charity/victim, social-economic and racial polarization, not to mention length of time community members have been in the country, contribute to hidden "registers of language," or a lack of knowledge of vocabulary and sentence structure and syntax can hinder the local people from interacting with business professionals and make the poor look and feel and be perceived as ignorant and unintelligent.

Third, the solution, then, is not to harness the power of the market but to first break down the hidden registers of language and bridge the polarization gaps. People, including business faculty and students, are surprised to learn that a vibrant economy exists in the inner city. It is this already existing urban legal economy that needs to be fed so that the competitive advantage of the inner city can be developed and exploited. This doesn't occur by bringing in "experts" and capital, although these things

can help, it occurs by building relationships with the resident experts in the area and learning about business from them.

To summarize, the paradigm underlying C@BH suggests that we are people in need of relationships. What has gone wrong is that the basic needs of inner city community members have not been met because relationships have not been maintained or built. The solution to the problem, then, has to do with the "three Rs" of

(Perkins, 1993, p. 37).

It is important to note that this sharing is a two-way street. Business faculty and students have a certain type of knowledge measured according to a certain type of metric. Inner city business owners, at least in my experience, have a different type of intelligence, an intelligence that tends to be hindered by hidden registers of language and social-economic and racial polarization. These must be overcome, and the only way to overcome them seems to be through relationship-building.

## Conclusion

The SBI program is an excellent means to provide meaningful community service in order to meet community needs. There are at least two paradigms through which SBI can do this, NBSN/ICIC and COPC/C@BH. I believe utilizing the COPC/C@BH paradigm can ultimately facilitate the implementation of the NBSN/ICIC paradigm. SBI directors must first assume that we are primarily relational beings before we are economic beings; we must first operate under the assumption that relationships are needed to overcome charity/victim, social-economic, and racial barriers before we can implement economic strategies. For instance, through relationship-building I have learned that immigrant Latinos do not understand the basics of business structure, taxation, city codes, because in their country of origin they operated

community development: relocation, reconciliation, and redistribution; or "moving into a needy community so that its needs become our own needs," "the love and forgiveness" which reconciles us to each other "across all racial, cultural, social, and economic barriers;" and, "sharing with those in need.... sharing our skills, technology, and educational resources in a way that empowers people to break out of the cycle of poverty under a different system and language. I have also learned that immigrant Latinos, particularly those who are poor, are intimidated by large, state-of-the-art retail facilities and white, middle class, men. Therefore, some faculty experts and students might have a difficult time developing and implementing economic strategies for existing businesses in the inner city.

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# THE RELATIONSHIP OF FAMILY SOCIAL SUPPORT, MARITAL STATUS, AGE, GENDER, AND ETHNICITY TO STARTING A SMALL BUSINESS: IMPLICATIONS FOR PROFESSIONAL COUNSELORS

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## **ABSTRACT**

Small business ownership is one of the fastest growing career choices in modern times. Yet the challenges and conflicts confronting the potential business owner from both the family and work environment often make this choice a difficult and risky one. The two systems of work and family increasingly have been found to become enmeshed. Support from others, primarily family members, is often associated with career choice, and also with career success. The present study is an investigation to determine if there is a relationship between family social support and starting a small business; and if any relationship is affected by the personal demographics of marital status, age, gender, or ethnicity.

Subjects for the study were drawn from a population of pre-business individuals contacting a metropolitan Small Business Development Center, a federally funded program that provides business counseling assistance. The respondents (N=217) were representative of two marital statuses (Partner and No Partner), three age groups (early, middle, and late adulthood), both genders (female and male), and two ethnic categories (White and Non-White). Each respondent returned a three-part self-report survey, which included a 15-statement questionnaire that evaluated perceived family social support.

The results of the present study found that a relationship does exist between perceived family social support and starting a small business. Those individuals who started a business had higher

perceived family social support than those who did not start a business. This finding was significant for both factors of family support, labeled Communicative Support (at the .05 level) and Behavioral Support (at the .01 level). The results also included that none of the four personal demographics significantly affected this relationship.

Implications can be utilized by small business counselors. The results of this study can provide information to these professional counselors for improved facilitation of the career choice of starting a business within a supportive family environment.

## **THE RELATIONSHIP OF FAMILY SOCIAL SUPPORT, MARITAL STATUS, AGE, GENDER, AND ETHNICITY TO STARTING A SMALL BUSINESS IMPLICATIONS FOR PROFESSIONAL COUNSELORS**

The U.S. economy has been undergoing a quiet revolution, its transformation from the industrial to the information age. One of the elements of this change is the economic engine of small business growth. In 1997 there were 23,655 million corporations, partnerships, and proprietorships with fewer than 500 employees, up from 18,286,000 in 1987. In addition, in 1997 there were 885,416 new small firms up from 748,000 in 1987 (Small Business Administration [SBA], 1999).

As reported by the SBA Department of Advocacy (2002), there were about 22.4 million

small businesses in 2001. They employ over 51 percent of the private-sector workers and provide two-thirds to three-quarters of net new jobs. Some 53 percent are home-based and three percent franchises. Women are full or part owners of 9 million businesses and the primary owners in 5.4 million of these. The number of women-owned businesses increased by 16 percent over 1991-1997. In 1997 there were 1.2 million Hispanic firms, 820,000 African-American owned firms and 913,000 Asian and Pacific Islander-owned firms. Over the period 1992-97, Asian-owned and Hispanic-owned firms increased 30 percent, African-American 26 percent (SBA, 2002). Regarding another minority, persons with disabilities, the 1990 census data shows that 12.2 percent of persons with a work disability were self-employed compared to 7.8 percent of persons with no work disability (The Center for an Accessible Society, 2001).

According to an advocacy study of businesses over the period 1989-92, 66 percent of businesses with employees remain open at least two years after start up; 40 percent were open after 6 years. The yearly turnover of firms in the U.S. is substantial. Studies suggest that as many as 3 percent of adults are involved in over 3 million new start ups at any given time. (Reynolds, 1996). About 50 percent of these firms-in-gestation may result in actual firm births. (Carter, Gartner, & Reynolds, 1996).

The impact of small business and entrepreneurial efforts is clearly an important part of life in the United States today, and an important career option for those in all walks of life. Yet, there are challenges and obstacles confronting the potential small business owner from both the competitive environment and the internal family structure. Support from others in the family, spouse, parents, and relatives in terms of technical assistance, money, and social or emotional support (cheerleading) are most important to surviving the courtship, infancy, and growth stages of the business (Adizes, 2000). However, small business counselors, often the initial contact in facilitating

the business concepts, most often overlook these connections and their impact. The counselors, due to background experience, training, or even time constraints, limit their focus on business issues (skills, finance, etc.) This paper explores the relationship between family social support and starting a small business, and how the start up is affected by marital status, age, gender or ethnicity. Implications for small business counseling is also discussed.

### ***The Family and Small Business Relationship***

Support from others, primarily family members, is often associated with career choice, as well as with career success (Lent & Brown, 1998). One would expect with the unique interdependence of work and family that starting a small business would also involve aspects of support. However, research on family support and starting a small business, is extremely limited. A recent research study (Liang & Dunn, 2002) found a significant connection between starting a business and family. Likewise, research on the type of support is also limited. Initial response by many would conjure up support reflected by serving the emotional needs of an individual. However, research expands the concept of support to also reflect assisting another through communication of information and behavioral activity. Individuals thinking about starting their own business could receive support from family not only by providing encouragement to go into business, but may also discuss the planning of the business, or even promise to work in the business.

The interactive involvement of the two systems of work and family has not been as apparent, or as complex, as in the family-owned business (Liebowitz, 1986). Marshack (1993) dispelled the myth of separate domains of work and family, especially when it relates to work-life that involves more than one family member. Such situations as dual-career couples, family businesses, and copreneurs (couple entrepreneurs who share ownership, commitment to, and



responsibilities for a business) are such relationships. In fact, most businesses are not only small businesses, but family businesses (Jaffe, 1990). Small business and entrepreneurship textbooks (Lambing & Kuehl, 2003; Scarborough & Zimmerer, 2003) continue to reflect the need of exploring family impact with starting a business.

Stress and tension have been greater for workers in small businesses than in larger ones (MacDermid et al., 1994), but the rewards and work-satisfaction can be greater for those who operate a small business (Thompson et al., 1992). Thompson et al, found that self-employed small business owners had a stronger relationship between job, life, family, and self-satisfaction, than did organizationally employed individuals. Wicker and Burley (1991) reported that the subjects in their study believed that starting their own business improved their marriage and family life. However, as MacDermid et al. implied, the unique features of a smaller workplace generated stronger links--both positively and negatively-between work and family.

The work of Flemons and Cole (1992) suggested that all family members should interact in the decision-making process and communicate their individual needs. Even when not directly working in the business, members of a family are affected by business decisions. Flemons and Cole agreed with the preceding literature supporting the need to communicate clear and separate boundaries between business and family. But, it was also essential that all family members stay connected in both the business and family matters. Family functioning was found to be the driving force behind the business. Thus, business success necessitated the need for developing the basic elements of healthy family functioning. Walsh (1993, 1994) identified the following as key family processes: (1) a sense of connectedness and commitment, (2) respect for individual differences, (3) a sense of equality, (4) effective parenting leadership, (5) adequate economic resources, (6) adaptability, (7) good communication and problem-solving skills, and

(8) a shared belief system. Dyer and Dyer (1990) added to this list the desire to spend time together and the ability to deal with crises and stress in a positive manner. McClendon and Kadis (1991) concurred with Walsh and Dyer and Dyer, and suggested that the struggle for identity was the underlying problem in families and family businesses. Thus the most important element for a healthy system was maintaining the self-esteem of all the people involved. Positive and healthy support was required for self-esteem to be established and nurtured.

### ***Conducting the Research***

This study determines if there is a relationship between these strong family attributes and starting a small business. Subjects for the study were drawn from a population of individuals who had contacted a metropolitan Small Business Development Center, a highly visible and widely utilized federally-funded program providing business counseling. A questionnaire was sent to 1,704 individuals who contacted the center over a five-year period with plans to start their own business. The questionnaire was sent out twice and 217 usable questionnaires were returned. The demographic characteristics of business starts, marital status, age, gender, and ethnicity were statistically represented in the group who returned completed surveys.

The questionnaire was a three-part self report instrument designed specifically for this study. Part I consisted of 15 statements assessing the three forms of support investigated: emotional(i.e. willing to listen, showed concern, provided encouragement); informational(i.e. offering information, suggestions and understanding); and instrumental(i.e. collected material, put in money, work actively in the business). Part II requested that the respondents report the presence or absence of social support from eight family membership categories. Part III consisted of eight demographic questions to determine marital status, age, gender, ethnicity,

arid whether they started a business. Business start was determined by purchasing a business license or by selling a product or service. Instrument internal and content validity was assessed through field-testing and consultation with experts. Construct validity of Part I of the instrument was determined through a factor analysis. The results of this analysis collapsed the three subgroups of support into two groups. Emotional and informational support combined to form Subscale 1, Communicative Support. Instrumental support was renamed Subscale 2, Behavioral Support. The reliability of the questionnaire was supported by a test-retest procedure with a Cronbach's coefficient alpha of .9495 for Subscale I and .8453 for Subscale 2.

Scoring of Part I of the instrument utilized a five-point Likert scale to measure family social support. Part II was scored by assessing the presence or absence of support from the listed family members, followed by ranking the support for each family member. Scoring for the demographic questions in Part III was categorical.

Two research hypotheses were tested: (1) There is no difference between the perceived family social support of those not in business and the perceived family social support of those in business; and (2) Relative to perceived family social support, there are no interaction effects for marital status, age, gender, or ethnicity and starting a business.

Data analysis for the study consisted of a descriptive analysis of each variable within the three parts of the survey and a comparative analysis of the relationship among the variables. Initially, a one-way ANOVA was performed on all factors for perceived family social support and starting a business. These analyses were followed by two-way ANOVAs on all of the variables to determine any interaction effects.

## Results

With a 16.8% response rate, sufficient data was collected to establish statistical significance to

gain insight into the relationship between family support and starting a business, and to test all hypotheses of the study. As expected, communicative support was provided more often than behavioral support. Support such as willing to listen, show concern, and encouragement were more often perceived than putting time or money into the business. Also, as expected, respondent spouses or significant others were more likely to have provided support than other family members. The spouse/significant other was also listed first in ranking of support. Not surprising also, all other female categories ranked higher than their male counterparts.

The variable factors were significantly established. Marital status frequencies were: Partner -68%; No Partner - 32%. Age frequencies were: <35 -30%; 35-50 - 53%; and >50 - 17%. Gender frequencies were: Male - 50%; Female 50%. Ethnicity frequencies were: Caucasian 59%; African American - 29%; Other - 12% (ethnicity was later converted to White/Non-white categories to allow for valid In Business/Not In Business statistical analysis).

The primary analysis of this study determined whether there was a relationship among family social support, marital status, age, gender, ethnicity, and starting a small business. A relationship was found to exist between going into business and the amount of perceived family social support for both communicative and behavioral support. One-Way ANOVA results was significant for Communicative Support,  $F(1, 215) = 4.86, p < .05$ ; and the One-Way ANOVA was significant for Behavioral Support,  $F(1, 215) = 8.54, p < .01$ . Thus, those individuals who went into business had significantly higher levels of support than those who did not go into business.

The analysis also revealed no interaction effect relative to perceived family social support for any of the four demographic variables and going into business. All Two-Way ANOVA on these variables could not support a relationship with starting a business. Those who started a business perceived significantly greater family

support than those who did not start a business, regardless of marital status, age, gender, or ethnicity.

### ***Implications for Small Business Counselors***

The results of this study strongly support the positive relationship between starting a business and the support received from family, and is valuable information for the prospective business owner. With professionalization of the small business counselor recently being established, it is very important that these counselors also be informed of the findings of the present study. This is particularly relevant to the counseling staff employed by the Small Business Development Centers throughout the country. Other small business counseling sources such as SCORE (Service Corp of Retired Executives), Women Business Centers, government business One-Stop shops, and other programs would also benefit. Too often these counselors evaluate only a client's level of management skills and financial resources to start a business. The counseling session rarely includes the impact of the business on family members. The small business counselor familiar with the results of this study can now include evaluation of the type of support the client is receiving from family as a factor to consider when starting a small business. Facilitating awareness of the importance of family support in starting a business enables counselors to identify clients who may need additional support, which will lead to more successful business openings. Furthermore, the small business counselor does not have to assist clients much differently depending upon their marital status, age, gender, or ethnicity. All clients will more likely successfully start a business if their family support is strong, or strengthened. However, it is important to evaluate each client's uniqueness in terms of family support. Getting support from family is important, although what family or nonfamily members provide what support, may be unique.

The 15-statement questionnaire used in the survey can be a tool for small business counselors to open a dialogue to assess family support. Positive dialogue will provide additional insight to their clients in assisting them with making a more informed business decision. Development of such skills by the small business counselor will strongly enhance their professional credentials.

With the present uncertain economic and political conditions adding to the increased complexity of starting a business, there is a growing tendency for individuals to cling to family for security. It is critical that both populations of individuals who are considering starting a business, and those that serve them, be aware of the influence of work and family relationships on business decision-making tasks. Individuals must recognize how support from family is important for both personal and business growth. The prospective business owner must evaluate and build a support system and incorporate it into their business planning. Small business counselors need to be aware of this support and improve their skills in facilitating the successful development of their business clients.

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\*\*\* Tables, and copy of questionnaire are available by contacting the lead author \*\*\*

# Community Outreach and the Small Business Education Program

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According to Palmer (1998) "our students may die in the classroom because we use methods that assume they are dead. Is it possible that your students are not brain-dead? Is it possible that their classroom coma is induced by classroom *conditions* and that once they cross the threshold into another world, they return to life?"

## INTRODUCTION

This belief and experience with the old Small Business Institute program is the impetus for the professor to attempt to bring "life" back to the small business management classroom. Even though the professor cannot force the student to be productive, they do have the responsibility to provide the student with the critical resources (i.e. a book that is useful, informative, and enjoyable) and provide a learning environment that will encourage interest and high performance. A junior-level Small Business Management class is used as an example of what can be accomplished simultaneously for the

After the demise of the Small Business Institute Program, the method of teaching this course was primarily one of lecture, overhead slides, some discussion, testing, and then the completion of a written business plan for a make-believe business.

The new approach is one where small business owners are invited to be a part of the class and student teams are assigned to a specific business. The completion of all course material is centered on their assigned business. The only restriction made on the students is the signing of a confidentiality agreement concerning all matters of their assigned business. They are

also to assume that their business has no money or a very limited amount to spend on making changes. The goals are to make students realize that throwing money at a problem is not always the solution and that creativity is necessary when making recommendations for improvement.

## IMPLEMENTATION

How do you make this transition from a passive to active environment? Black Hills State University received a grant and this gave the university a tremendous boost. Because of the grant, the school was able to do limited marketing, supply materials for the business owners, and allow two faculty members time to sell the program and make it a success. Even without a grant, it is possible to make this

The steps necessary to accomplish this transition include interacting with the school administrator, the business community, the business owner, and the student.

### **Step One**

The administration of the university needs to be approached and they may need to be "sold on the idea" in order to be convinced that it is okay for the business owner to attend class without paying tuition. The owner does not take exams nor do they receive college credit. Even so, some universities are opposed to "giving away" their services. This university chose to believe that if the community was enhanced, the university would be the recipient of that good fortune. Some owners may even decide to take the course for credit and pursue an Entrepreneurship

## **Step Two**

The professor(s) will need to be willing to speak to the civic organizations in the region to hand out brochures and make a general introduction of the program. After that, it will be necessary that the professor spend time in the business community explaining the program on an individual basis. If the business owner is interested, they complete an application form. Ms form asks for the number of years in business, what they hope to gain from the program, what they can contribute to the program, and areas of concern that they have. A team of business faculty members selects the owners based on how open the owners are perceived to be and whether it is believed the students can make a positive difference in the business. If selected, they are notified and they agree to the commitment of attending class and working with the student team. Competitors will not be assigned to the same class. Even though the confidentiality agreement is signed by the student team, it would be too easy to overhear a conversation or pick up a business idea that could be a key success factor to that business.

## **Step Three**

Business owners generally sign up for the program and are willing to "help the students" if there is a complete explanation of just how the program would operate and what would be required of them. What the owner does not initially realize is that before the end of the semester they will be the recipients of the help. They will come to value their team and learn a lot of valuable information about themselves and their business. Because of the grant dollars, they are not expected to spend any money because the college furnishes the books and all materials needed to complete the project. If there were no grant money available, the business owners would need to pay for their

## **Step Four**

The fourth part of making this approach a success hinges on the student. At first, some students doubt their ability to assist the business owner. Once the student realizes that they bring up to date book knowledge that the business owner respects and is happy to have, their confidence grows and it becomes a win/win situation. The student gains access to the "real world" experience and the business owner updates their knowledge base and rekindles their enthusiasm for the entrepreneurial experience.

### **Classroom format**

One of the first in-class exercises includes the administration of a personality profile. The discussion that follows allows the newly formed group an opportunity to get to know the other team members and the business owner. It also creates the awareness of how the different personality styles can effectively work together.

The introduction to the course includes topics that are common knowledge to both the business owner and the students. This gives confidence to both groups. It is intentional that the financial aspect of the business is not addressed until after mid-term. This allows time for the student team and owner to work together and build a trusting working relationship. Even though not required, every business owner has shared the financial aspect of their business in order for the team to make recommendations. By the time the chapter on financial ratios is presented, the student team has already looked up the industry standards for their business and is able to not only figure the ratios for the owners, but also indicate the areas that need attention, and make recommendations.

A business plan is prepared by addressing certain topics each week. The sections are submitted each week and the professor returns that section the following week with

constructive criticism. The student team then has the opportunity to improve their project. This ultimately means the completion of a better plan for the owner. This also allows time for the professor and the business owner to interact.

Each topic discussed is presented to the entire class and then the class works in breakout groups to develop that topic for their business. For example after the discussion on the Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis, the groups prepare one for their assigned business. When discussing buying a business, the students determine the value of the business they are assigned. They use several methods so that a range can be determined. The competitor analysis section means that the team goes into the community and does an analysis for their business. For the topic of location, the team will evaluate the current location and make recommendations on how it can be enhanced.

Just the fact that faculty members get out of their office and off campus into the business community creates a favorable impression for local business owners. In addition, it is not uncommon to find business owners standing around talking about their businesses, local conditions, sharing of marketing ideas, etc. after the class time is officially over.

How does all of this bring life to the classroom? When students are working on an actual business, they take on the responsibility and immediately sense the importance of their work and see the applicability. They are more serious and thorough. Class time goes by very quickly and they get the opportunity to apply the information they just learned in a very practical sense. They can immediately see the value and use of concepts that are discussed in the classroom. The real measure of success of this approach is when the students become so involved with their assigned business that they stop by the office to share an idea that they have

for the owner. It is at that point that they are hooked and are learning more than even they realize.

## **THE FUTURE**

The next step to implement in the spring of 2003 is to assign a laptop computer loaded with software to make on-site visits to the business and complete a project. The special software that has been loaded on the laptop is Business Plan Pro, Marketing Plan Pro, Quick Books, Publisher, and a Financial Analysis Spreadsheet.

The students will complete at least one project for each software package that is loaded on the computer. For example, they will design letterhead, business cards, invoice forms, etc. for their business. They will show the owner how to use the planning software, help them see the advantages of computerizing their books, and teaching them to read their financial statements.

Is this approach more or less work for the professor? Clearly, more work is required but it is work that is more enjoyable and leaves the instructor with the sense that they in fact did make a difference. The classroom is alive, business owners benefit, and students not only learn concepts, they have the opportunity to apply them.

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# Entrepreneurship Education: A Look at Student Recruitment and Selection

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## Abstract

This case study explores the need for recruitment and selection of students in experiential entrepreneurial classes. Based on observations from an entrepreneurship class in which the students formed a company, and produced and manufactured a musical CD, we discuss the reasons why random selection of students may not be the most optimal method of student selection. A discussion follows on techniques for improving student selection and recruitment. Specifically, we propose a multimethod approach that includes faculty referrals, references, pre-tests, interviews and in-basket exercises be given to prospective students.

## Introduction

Entrepreneurship education has received considerable attention as demand for college courses of this nature rise. In response to the demand, educators have been challenged to find a suitable pedagogy that fits the uniqueness and realistic needs of such courses. Research results indicate that using experiential and gaming/simulation approaches meet these needs (Porter, 1994). However, while the pedagogy challenge may have been met, there is a second equally looming challenge for entrepreneurship educators. This is how to determine which students will succeed in entrepreneurship courses.

This is a case study. For over a year, we watched twenty students as they formed a company, Starving Students Productions (SSP) and produced, manufactured, and sold a musical rock CD, Code Red: Destination Unknown. It was a turbulent time with many highs and lows and even though the project proved to be

successful by many measures about twenty percent of the students indicated that they did not like the experience. Two students failed the course. Two students dropped the course. In hindsight, we realize that our student recruitment and selection process contributed to some of the challenges we faced later in the course. In this paper, we explore how we recruited and selected students, why our method was flawed, and offer suggestions on how to improve on student recruitment and selection in the future.

## Starving Student Productions

In Fall 1999 we developed a new entrepreneurship course. This course would begin in Spring 2000 and be comprised of a two-semester course sequence. As we designed the course, the marketing plan and fund raising would be completed in the spring semester; summer interns would keep the project moving through the production stage and in the fall, the students would sell and market their product.

We established our timeline and our product, a musical CD, based on a similar project that had been successful at Elon College. We liked the idea of selling a CD since it was a product that our students already knew and could get excited about selling.

We limited the class to twenty students. Sixty-five students expressed interest in participating in this business experiment. To make a final selection, we asked students to fill out a questionnaire that included major, course expectations, and the amount of time they were willing to put into the project. Because we anticipated that much out-of-class work would be required, time availability became the major selection criteria. We also were interested in

students that had some skill to bring to the business such as experience with recording studios. Our final selection contained junior and senior business administration majors from all areas of the college. There were an equal number of males and females and the average age was 21.

When the students arrived the first day, they were unsure exactly what would be expected of them. They looked to us to provide the goals, and sometimes, answers. They were accustomed to taking notes, reading text, and answering test questions. However, these skills are not very helpful in running a business. For some students, this was the first time that they had to discover what questions to ask and then go out and find the answers. In general, some students exhibited a low tolerance for ambiguity and a low ability to structure tasks by themselves. We tried to counteract these feelings through constant articulation of the task requirements, group exercises, and breaking down the project into small parts.

The first series of tasks focused on marketing research and market segmentation. Based on this research, students decided to produce a rock music CD featuring a compilation of independent rock artists from the region, sell it for \$12.99 to 16-30 year olds, and distribute it through area music and electronic stores as well as via the Internet.

Students slowly began to realize that they were making decisions for their own company. SSP students now felt some power. Record producers courted them to use their studios. They could help local bands become known. They were business people.

As the project unfolded, the problem of finding funds for entrepreneurial projects became apparent. The recording studio wanted their fee in advance. Once the realization hit that it would take at least \$15,000 to record, master, manufacture, and package a CD, the class focus shifted from music to raising funds. A few students volunteered to oversee the

fundraising efforts of the company. Most students were content to just sit back and hear about the fund raising efforts. By the end of the semester, the students had obtained no new funding.

Fall marked several new changes. With no new funding, SSP took on \$16,000 in debt. To help pay this debt, we imposed a minimum requirement for passing the course. Each student was responsible for selling 100 CDS. We gave students the opportunity to drop the course if they did not agree to this requirement. Two company members took this option indicating that it appeared that the course would require too much of a time commitment. Eighteen students remained in the class.

In addition, we took more control of the class by setting deadlines for specific activities to take place. By the fall, we had lost the luxury of time. There were only sixteen weeks left to sell enough CDS to repay thousands of dollars in loans.

The original timeline called for CD production to be completed over the summer with the product delivered in August. Unfortunately, production difficulties occurred and another company had to be quickly found to manufacture 100 CDS to sell at a scheduled Release Party. This was a major hurdle. Even worse, although approximately 125 people attended, only 4 CDS were sold.

During mid-Fall semester, CD sales were slow. The class was definitely split into three factions. Approximately thirty percent of the students were developing new strategies to sell the CD. Some students started to go to various classes to promote and sell the CD. As one student commented, "these things will not sell themselves."

Fifty percent of the students just watched the others work. The remaining twenty percent of SSP members became the vocal critics of other students, the entire project and us. A wall of tension built up in the class. This tension escalated when we made it clear that we still

expected everyone to sell 100 CDs. By constantly reinforcing this goal, most students understood that they were in considerable danger of failing the course.

To say things were bleak by November would be a serious understatement. However, just when some students had lost all hope, an alternative presented itself. The university bookstore management offered SSP the opportunity to staff a sales cart in the regional mall. Students worked over 890 hours at the cart. An analysis of participation at the cart showed that the most proactive students in the class put in 244 hours even though many of these students had already sold their 100 individual CD order. Students who were most critical of the business worked 159 hours even though they had not reached their individual target. A third group, who had remained relatively inactive throughout the class but also were relatively non-complaining, contributed the remainder of the hours. It is this third group that became interesting. One of these students commented after working eight straight hours at the mall, that "being in business is hard work." The mall cart revenues generated sufficient revenues to more than cover all CD production and marketing expenses.

Our positive ending is that this project did make a profit. Many students used the experience as a way to obtain good jobs. Nevertheless, two students dropped the course, two students failed the course, and some expressed dissatisfaction with the experience.

### **The Recruitment and Selection Process**

In the beginning of the project, we were unsure as to how to recruit students. Over a period of two days we solicited student applications. From the sixty-five students that applied, we used two means to select students. First, there was self-selection. We believed that interest in the project would translate into

performance in the course. Second, we asked everyone to complete a one-page questionnaire. The questionnaire asked students about their majors, how much time they were willing to put into the class, and what skills they could bring to the class. We wanted a variety of majors since this project would require expertise. We also knew that this class would require considerable effort so we wanted students who expressed a desire to work. Finally, since we knew nothing about the recording industry, we wanted anyone who had some knowledge in this area.

Looking back, we made many faulty assumptions. We assumed that students self-selected themselves into the course because they were interested in the "hands-on" nature of this entrepreneurship class. Certainly this was true in some cases. However, other students had totally different reasons for taking the course. In later conversations, some students admitted that they signed up for the course because they thought it would be easier than taking the traditional business core courses. For them, the idea of "hands-on" translated- to not having to read text material, do papers, or have quizzes. Some thought it would be fun. Other students said they wanted to be in the class because their friends applied.

Self-report questionnaires are always subject to weaknesses. Our survey was no exception. Survey research is generally weak on validity and strong on reliability (Babbie, 1989). For some students, did we just measure their ability to give us answers that they thought we wanted to hear? Even the question concerning what skills students could bring to the course.

### **Recommendations for Selection and Recruitment**

Just as not everyone is a perfect candidate for a job, not every student is a perfect

candidate for an experiential entrepreneurship class. Regardless of their age, students come to class with different experiences, attitudes and maturity. The argument that even the most inappropriate student may still gain something from the class ignores the reality that the student is taking up a space that someone else more suited for the task could be occupying.

Selection has got to start with good recruitment. Originally we defined success as just getting enough students to apply. In hindsight we should have been proactive in trying to find the "right" twenty students for this activity. Publicizing the class is just one step. However, this can be combined with soliciting referrals from faculty. Faculty may know students who are highly motivated and good candidates for the experience.

We did not use grades in the selection process. In retrospect, we would recommend using grades as one selection criterion. In the SSP project, the students who came into the class with the highest grades were the ones who appeared to benefit the most from the project. High grades in college are a measure of achievement. The need for achievement construct (McClelland, 1961) has been consistently tied to entrepreneurial behavior. High achievers desire success, set high standards on goals and performance and seek continuous improvement.

We also recommend using interviews. As a selection device, interviewing performs two vital functions. It can fill in information gaps (e.g., incomplete or questionable responses on a survey) and it can be used to assess factors that can only be measured via face-to-face interaction.

Interviews would also give us the opportunity to give a realistic job preview of the course. Studies demonstrate that when the naive expectations of job applicants are lowered to match organizational reality, job acceptance rates may be lower, job performance is unaffected, and job satisfaction and job survival

tend to be higher for those who receive a realistic job preview (Wanous, 1977). Extrapolating these results to an applicant for an entrepreneurship class, an interview that includes a realistic look at the requirements of the course may discourage students who think the class will be easy and require no work. A realistic job interview would also help set high expectations for students prior to the first class meeting

Ask the students to provide a couple of references. References can give some specific examples about a student's past performance. Also, ask the student to complete some written task that is comparable to the type of work that will be required for the class. In the SSP projects, applicants could have been asked to gather some material from a secondary source that would help with the market research. Having to actually complete a project would indicate a student's ability to work independently.

Finally, we recommend using a survey that assesses the following characteristics: risk propensity, need for achievement, internal locus of control, tolerance for ambiguity, self-reliance, Type A Behavior and proactivity. Studies have shown that entrepreneurs appear to share these traits (Cromie, 2000; Lee & Tsang, 2001; Stewart & Roth, 2001). Entrepreneurs appear to be different, not just because of what they do, but because they are predisposed to certain actions due to their personal characteristics. Following this reasoning we recommend that these characteristics could be identified before the entrepreneurial activities take place. That is, students who possess more of the personal characteristics of entrepreneurs would likely be more successful in an entrepreneurial class than those students who possess fewer characteristics.

In the case of risk propensity, entrepreneurs cannot avoid risk nor can they appear to be gamblers. Studies show that entrepreneurs rather carefully calculate and

manage risk (Caird, 1991; Cunningham & Lischeron, 1991; Timmons, 1989). In the SSP class, students were more than willing to take risks if they were not held accountable. For example, they planned the Release Party prior to even receiving the manufactured CD. However, when they realized that they had to sell 100 CDs each in order to pay off their loans and pass the course, some students became risk averse. For this project to be successful, students needed to be able to manage risk.

Tolerance for ambiguity is often associated with risk aversion and risk-taking propensity. A situation is ambiguous when it is difficult to interpret and there is some uncertainty about the outcome. Many situations in organizations are inherently ambiguous as managers face increasingly fragmented, rapidly changing, tumultuous conditions.

People differ in the extent to which they can cope with ambiguous, incomplete, unstructured, dynamic situations. Research has found that cognitively complex and tolerant individuals are more behaviorally adaptive and flexible under ambiguous and overloaded conditions than less tolerant and less cognitively complex individuals (Haase, Lee & Banks, 1979).

Entrepreneurs face uncertainty on a continual basis. They often need to adapt to ambiguous, uncertain conditions and accept personal responsibility for their actions. SSP students faced considerable ambiguity. They were accustomed to the traditional class that required them to read material, take notes, and pass exams. This project did not have any of that structure. Students that could handle ambiguity expressed more satisfaction in the class than those students who did not manage ambiguity.

Locus of control is a dimension of personality concerning attributions for cause of behavior (Rotter, 1966). Individuals with internal locus of control attribute the cause of their success or failure to their own abilities. In

addition, they do not believe in luck, good or bad, but perceive they can ultimately determine their destiny. It has been argued that this perception of being "masters of their own fate" helps them to recover from setbacks and continue seeking success. In the SSP project, students that had an internal locus of control were much more willing to look for alternative methods to sell their CDs. Students with strong external locus of control tended to blame everything on outside forces.

Proactivity is identified in individuals that recognize opportunities and seize them by taking action and bringing about meaningful change (Bateman & Grant, 1993). Proactivity differs from internal locus of control, a cognitive trait, because the focus is on the tendency to act. These acts impact the environment; thus Buss and Finn (1987) describe proactivity as an instrumental trait. In order for SSP to be successful, students had to be proactive. Some students were. For example, one student went to the local radio station and got them to play the CD frequently to foster a "pull" strategy from university students.

### **Conclusions**

Historically students have just registered for courses and for the most part, if they attended class and did the homework, they were successful. However, times have changed. Interactive experiential education is becoming more common in the university. The American Assembly of Collegiate Schools of Business (AACSB) has encouraged business schools to incorporate entrepreneurship in the curriculum.

Just as using a lecture method was not the most effective way of teaching of all students, neither is experiential education. Some students benefit from this approach. Other students clearly do not. The SSP class was a major time and resource commitment both for students and faculty. It had many benefits. The hands-on learning experience provided the

real world experience of running a business with both its positive and negative aspects. Those students who were highly involved with SSP received multiple job offers during their graduation year. One student even decided to open his own business. However, the experience was not positive for everyone. For the type of students like ours who eventually learned about entrepreneurship by working at the mall, we recommend having a more structured class with weekly rather than semester deadlines. We may never know if those students who failed or dropped out of the course learned anything about entrepreneurship but obviously the SSP project required more work and more independent action than they were willing to give. To target the most appropriate members in an advanced entrepreneurship class, we recommend doing a better job of recruitment and selection prior to the class. Specifically, we propose that a pretest, a realistic job preview during an interview and an in-basket exercise be given to prospective students as a determining factor for entry to experiential entrepreneurship classes. This would set the groundwork for a better functioning learning experience for successful applicants.

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# **The Entrepreneur's Guide to the Strategic Use of the Internet**

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## **Abstract**

Internet use is growing exponentially and the value of a Web site for small businesses is becoming increasingly clear. Many small businesses can use the Internet to develop their customer base, to enhance public relations campaigns, to add value for customers, and to meet firm objectives. There can be little doubt that almost every small business should consider having a Web presence, but what kind of presence and for what purpose(s) need to be articulated. This paper is of potential use to Small Business Institute (SBI) student consultants, Students in Free Enterprise (SIFE) participants, entrepreneurship and small business instructors, SBI clients, entrepreneurs, and small business owners in general. It identifies potential uses of Web sites for small businesses, some Internet strategies that have been especially effective for small businesses.

## **Introduction**

Why should a small business consider an Internet presence, especially after the "dot.bomb" episode of 2000? The short answer is because the Internet is growing rapidly, even in the United States. A longer answer includes the fact that global growth is even faster. A recent report by the Department of Commerce indicates that the rate of growth of the Internet in the U.S. is about 2 million new users per month (National Telecommunications and Information Administration [NTIA], 2002). More than half the U.S. population is now online (143 million in September 2001). The

groups of people who had not previously used the Internet. For example, people with household incomes of less than \$15,000 per year are going online at a rate increasing at 25% per year. The use of the Internet is also rapidly increasing among Black, Hispanics, other minorities, and rural users.

Internet use for e-commerce is also growing at an exponential rate. This became particularly evident with holiday spending in 2001. Even with the 9/11 terrorist attacks and the downturn in the overall economy, e-commerce has grown. In fact, perhaps because of these issues, retail Internet sales have increased faster than even anticipated to reach 1.2% of all retail sales ("E-commerce Hits a Record," 2002). While still a relatively small part of total retail sales, this represents more than \$10 billion in retail sales. Clearly, e-commerce has increased in importance over the past few years. But e-commerce is not just a phenomenon of large firms. Increasingly, small e-tailers are becoming important cogs in the Internet marketplace. Small companies are expected to grow their online sales 336% from 2000 to \$120 billion by the end of 2002, far outpacing overall e-commerce growth

International Data Corporation forecasted that Internet-related spending would rise from \$124 billion in 1998 to break \$500 billion by 2002 ("Break Out the Wallets," 1998, p. 74). E-commerce between businesses is five times as much as consumer e-commerce-about \$43 billion in 1998 and expected to reach \$1.3 trillion by 2003 (Forrester Research Inc.) Independent research firm Forrester Research estimates global Internet sales will reach

\$3.2 trillion in 2003 if businesses and government agencies continue to collaborate (Shultz, 1999, p. 52). Ovum Inc., an independent analyst group, says research indicates that the Internet will support 500 million users worldwide by 2005 ("Ovum Posts," 1998, p. 1144). The management consulting firm Booz, Allen, and Hamilton estimate that by 2007 as much as 20 percent of all household expenditure will occur in cyberspace (Stipp, 1996). What do all those numbers mean to a small business and whether it should have a presence on the Internet?

### **The Case for an Online Presence**

There are many reasons why a small business would benefit from having a presence on the Internet. This presence may be a very simple static home page to an elaborate interactive e-commerce model where products are sold online typically by using credit cards. A business will probably be able to capitalize on several benefits, but a site might be desirable if even only one benefit were possible. The more potential benefits, or matches, the greater the potential for building a powerplay Internet business or a mine of bricks and mortar and Internet. Every organization today needs to examine its Internet strategy to maximize its profitability and long-run sustainability. Most businesses realize many benefits in their strategic use of the Internet. The following is a listing of benefits with a URL that demonstrates that benefit. We have picked examples which seem to demonstrate each attribute. Some sites are chosen

1. To establish/build an image. Rampart Realty, Inc. (<http://www.rampartrealty-com/>) - "Personal Service in a Digital World" uses photos of staff to show the personalized approach on its technologically current site.

2. To add value for current customers. For example, in the traditionally bricks and mortar funeral industry an Internet business, FuneralNet (<http://www.funeralnet.com/>), was started to enable funeral homes to offer online registration and memorials for its families. Further, online access is a real boon for home banking consumers who can enjoy more timely access to Rinds, more conveniently and cheaper (Wright & Ralston, 2002).

3. Participate in affiliate programs to add another income stream. For example, Proflowers.com affiliates with noncompetitive companies who offer Proflowers.com's service to their own customers and thereby get a percentage of the sale.

4. To cut costs. A business could save printing and/or shipping costs, and fixed asset expenditure for a storefront. Pyro Media Inc, (<http://www.pyromedia.com/>) produces an online color catalogue, which can be updated and accessed momentarily at much less cost than a four"-color hard binder catalogue. Hundreds of thousands of businesses can operate as a virtual business without a costly bricks and mortar storefront or employees such as Hunger Fighters.com. or Fridgedoor.com.

5. To develop new customers. Customers are referred from other sites through listing or trading advertising (banners). From hyperlinks from other sites, potential customers are directed to your site. Unlike the affiliate program, normally there is no compensation for this VAX of hyperlink. Banner exchanges can be targeted to increase the effectiveness. For example, a business which made garden decoration art might join the Home Banner Exchange (<http://www.home-banner-exchange.com/join.asp>), which specializes in sites that have a relationship with construction and home improvement, home decorating, landscape and garden.



6. To participate in business-to-business commerce. This enhances a business's ability to buy from or sell to other businesses. Funeralnet.com has Funeral Directors register to enable them to "get access to industry news, our listing of on-line classifieds, and much more."

7. Use social responsibility and the triple bottom line as a strategic advantage positioning. Starbucks has a triple bottom line strategic thrust emphasizing measuring people, profit, and planet (<http://www.starbucks.com/aboutus/csr.asp>). Starbucks' mission statement is clear on the direction (<http://www.starbucks.com/aboutus/enviroment.asp>). A medium sized hundred-employee group, the White Dog Cafe in Philadelphia, promotes "actions you can take toward building a more socially just and environmentally sustainable world" (<http://www.whitedog.com/action.html>).

8. To capitalize on product/service made for the Internet. Currently, some products seem to sell very well on the Internet. Products that used to do well include catalogs and mail order houses, computer products, financial services especially online brokerages (before March 2000), smaller companies with unique product/service offerings, information services and travel services. Comparison shopping sites, like my Simon (<http://www.mysimon.com/>), allow online shoppers to compare prices on a variety of consumer electronics products, thus enabling consumers to make better decisions (Vaidyanathan & Aggarwal, 2002).

9. To market specialty items. Fridgedoor-com, "The Web's Biggest Magnet Store" (it might even be the only one), only uses the Internet as its storefront.

10. To overcome a location which limits the market. Location would limit TheGarlicStore.com on Weld County Road 13 in Fort Collins, Colorado, and Fridgedoor of Quincy, Massachusetts. The Garlic Store is able

to operate internationally to meet needs of gourmet enthusiasts.

11. To capitalize on the auction model. Starting back in 1998-1999 ... "Online haggling is the hottest thing happening in E-commerce" according to *Business Week*, April 12, 1999, News: Analysis & Commentary (Hof, Green, & Judge). EBay.com (<http://www.ebay.com/>) in 2002 has proven to be a successful model,

12. To market a new product in mature industry with established players funeralnet.com is an example of using the Internet to market a new product in a mature industry with established players. It also offers Web design services to those players who may not be online yet.

13. To aid in recruiting employees. The Internet could supplement classified ads and other more traditional methods of recruiting. For career opportunities at the large Coldwell Banker (<http://www.coldwellbanker.com/>), request CB Document, or at the two shops of Studio 904 (<http://www.studio904.com/home.html>), career opportunities are promoted.

14. To research competitors and new products. Keeping track of what competitors are doing is easier on the Internet. You can see pyromedia's new ceramic items as soon as they are designed and posted on the company's Web site.

### **Internet Models Implementation**

Before developing an Internet presence, small businesses should consider how the Internet fits with their short- and long-term strategies. While most small businesses can probably benefit from an Internet presence, it may not be for every one. Assuming an Internet strategy is appropriate, can you successfully implement it? Ask yourself the following questions before developing your Web site:

Do you have the available resources? A Web site can be inexpensive to develop, especially if it is done in-house, but is that the image you want to portray? A professionally developed transactive site can be very expensive. This might be a good time to develop a Web presence, though, since many Web developers are looking for work.

Do you and your officers have a long-term commitment to your Web presence? If not, think again.

Examine the benefits and costs. What will it cost to accomplish your Web objectives? Is it worth it?

Be realistic in the time it takes to develop an adequate site. Think in terms of months, rather than years.

After assuring yourself that an Internet presence is within your means and is strategically important, then the level of involvement must be determined. Many small businesses start off with a low level of activity on the Web, such as contact information, product descriptions, etc. what is often called "brochureware" (Strauss and Frost, 2001). Here, cost reductions and efficiencies may be the goal. At the next level of involvement, the business process level, the goal might be improving effectiveness. Increasing sales and customer relationship management (CRM) are examples of this level of involvement. At the enterprise transformation level, brick and mortar stores expand into the online world. Finally, the highest level of involvement is the pure play, in which a firm only has an online presence. Transactions occur online primarily at the higher levels of involvement. Each of these levels requires different skills and different strategies. While 22% of small businesses had Web sites in 2000, only about 8% actually

The power of the Internet lies in its networking abilities, which gives small businesses the

ability to reach global markets and develop new customers never before possible. As rapid as growth of the Internet is in the U.S., it is even more rapid in Europe and parts of Asia. Jupiter's Globalization Report in 2001 estimates that the U.S. share of the global Internet population will drop from 36% today to 24% in 2005 (Dunlap 2002). Half of all online revenues will be generated outside of the U.S. by 2004. In European countries now using euros, e-business

## Conclusion

Certain products may be more challenging to sell over the Internet. These might be related to factors such as high shipping costs, high product liability issues, or the need for personal selling (Geller, 1999).

In any event, an Internet presence is going to make sense for the majority of businesses today regardless of size. The case for an online presence is too compelling.

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# **The Nature of SBI Learning**

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## **Abstract**

Although **SBI** learning enables students to learn how to apply concepts and techniques learned in their business courses, in the opinion of the senior author, more valuable learning generated by SBI work is knowledge of small business situations, scripts, and schemata. Perhaps the most valuable learning of all is learning how to learn about business situations.

## **Introduction**

I wonder who was the intrapreneur who had the first flicker of imagination about Small Business Institutes? I (the senior author) first heard of a SBI in 1972 when a SBA field person came by my office at Georgia Southern to ask if I wanted to supervise some students who would consult with area small businesses. He said the SBA had loaned money to small businesses in our area and they thought students consulting with the businesses would increase the chance the borrowers would pay back their money.

I decided on the spot to go ahead with the idea. I thought this would make my small business course more interesting. I used the case method and writing cases based on the SBI consulting would be a natural fit with my requirements. I have been at it 30 years. One of my undergraduate teams won Runner-up in the Nation in 1992 when the SBA conducted the national Case of the Year contest.

## **Managing the SBI**

I assigned student teams to work with particular small businesses during 1972-1994 when the Small Business Administration funded SBI

consulting and casewriting. Most of those businesses were SBA borrowers. The SBA had various forms that protected the confidentiality of the client and that kept track of the travel, research, and consulting hours logged by students. Copies of the completed cases and other documentation had to be sent in to the SBA regional office every year.

This process created pressure. Since the students knew the SBA was paying our college \$200, \$400, or \$500 a case, it was like they were doing real work. There was some chance their work would not be good enough, their case would not be accepted, and we would not get paid.

## ***Meeting the Client***

Students had to introduce themselves to the client. Here was an adult who owned a small business and he or she was supposed to let 3 or 4 college kids come in and start looking around? And listen to those kids tell her or him what to do about the business? How would it affect your grade if the client would not talk with you or pay attention to you? The students had to sell themselves, which is a very real world thing to do. This is seriously different from going into a classroom to be lectured by a teacher who has to let you sit in the class simply because you signed up.

From 1972 to 1994, I supervised about 10 cases per year, over 220 cases. Most of those cases were written by teams of 3 students. I supervised about 600 students doing SBI work during this time. Never once did a team fail to establish a consulting contract with an SBA borrower, although some of the students did have some problems. Some of the clients would

persist in treating the students like children, summarily rejecting all suggestions, but most treated the students kindly, respected their work and knowledge, and appreciated the students trying to do something to help them. Probably no more than 5 percent of the clients gave their student consultants a hard time.

Most of the SBI students took their work seriously and acted courteously, respectfully, and professionally. I never had a single student who caused a serious problem. I never had to remove a student from a team.

### ***The SBI After the SBA Withdrawal***

I have supervised another 240 or so students doing SBI work since the SBA stopped funding SBIs in 1994. For a year or so after 1994 I would attempt to find clients for the students and assign teams to particular clients. From time to time I would have clients call and request consulting and I would attempt to find students who seemed to have particular skills and expertise that would fit the client's needs. I still do this occasionally, but now I mainly just let the students find their own clients. This may be best for students. I tell them a major purpose of SBI learning is to simulate real world learning processes. What better way is there to simulate selling goods and services in the real world than to have students sell themselves as consultants to clients whom they find for themselves?

In the real world successful business people establish relationships with people, and use their connections to set up deals. Why not give SBI students the same opportunity? A student in the class might work for a business on a part-time basis; a student in the class might have parents who own a small business; a student might get to know a small business owner as a customer; a team might find a client by looking in the Yellow Pages and cold calling.

Relationships are established in all sorts of ways, and small business success largely depends on an ability to form and maintain relationships. Interpersonal skill is probably the most important skill. You have got to talk with people and sell yourself.

### ***Teaching Applied Small Business***

I do SBI consulting and casewriting in our Applied Small Business course. The SBI case is the major requirement, accounting for some 40 percent of the final grade. The other 60 percent is based on class participation. I have about 30 students in the Applied Small Business class every spring semester. The ASB course is the capstone course for our entrepreneurship/small business emphasis area in the department of management and marketing.

I require students to read and discuss a monograph of mine, *Business Voyages* (Stapleton, 1998), that includes a review of general business principles, such as economic and marketing theory, accounting principles such as cash flow statements, financial theory such as break-even points and present value, and some information on how to be a good consultant. I also require students to read and discuss another monograph of mine, *Georgia Southern Entrepreneurship* (Stapleton, 2002), that includes some information about the SBI program, the nature of case learning, and ten cases written by previous SBI students. I still use some of the information provided by Donald Clause in his *A Guide to Management Consulting*. Students must still sign confidentiality statements and turn in the written contracts and time logs on forms much like Clause designed and recommended.

During the last four weeks or so of the course we discuss SBI cases the students are creating. If the client objects to his or her business being discussed in class students disguise the business and problem to create anonymity.

I randomly select students to brief the class on problems in the cases. Students then respond to the person who does the briefing using the synectics process developed by Prince (1970) in his book *The Practice of Creativity*. The rules for the process require the responder to repeat the briefer in summary form what the briefer said to prove the responder understood what was said. The responder must then give positive reinforcement by telling the briefer what it was he or she liked about what the briefer said; the responder must then state a concern about the problem, since no ideas are perfect; and then the responder must create a "how to" suggestion by saying something to the effect of "it seems to me you need to figure out how to do such an such to deal with the concern." The briefer must then create a new idea to deal with the concern and how-to suggestion. The process enables the responder to help without taking over or proving he or she is superior and invites the client, in this case the briefer, to solve the problem by creating new ideas. If students can do this in class, they can do it talking with their clients at business sites.

Students normally research and write 8 or 10 SBI cases in the ASB course. *Georgia Southern Entrepreneurship* includes 10 cases written by past SBI students that are read and discussed in class, so a total of 20 or so cases are discussed in the course. Each of these cases includes several problems, say 5-10, so students are exposed to more than 50 different problems in the course. Some of these problems are similar but some are unique. Some can be classified as marketing, management, finance, accounting, economics, and information systems or computer problems, much like business textbooks and disciplines classify business problems. But these problems are not one paragraph long as in a textbook, or a few pages long as in a casebook; they have no set length, the chapters do not tell you how to work them, and there is no instructor's manual that tells the teacher what is the right answer.

Students make a final case presentation during our Entrepreneurship/Small Business Annual Meeting at which members of our E/SB Board of Advisors judge 1st, 2nd, and 3rd place winners in our local Case of the Year contest. The winners are recognized in our Small Business Institute glass case in a high traffic area of our business building for a year. New cases are added to *Georgia Southern Entrepreneurship* during some years.

### ***Evaluating SBI Learning***

According to student evaluations, the ASB course is the best course I teach. Students say they learn more in this course than they normally learn in business courses. If so, what is it they learn?

They have an opportunity to learn most anything they might need in a small business or entrepreneurial career. They review general business, marketing, accounting, and finance theory and techniques; they learn something about the history of the SBI at our university; they learn something about the nature and quality of cases written by their predecessors doing SBI work at our university; they learn some techniques and processes for doing consulting work; they learn how to write a case; they learn how to talk with their clients; they learn how to talk with their team members; they learn how to talk with the class about business problems; they learn something about themselves, what some of their strengths and weaknesses are relative to their team members and their class members; they learn more about what they really think about the real world of small business; they learn something about the probabilities of possibilities for solving them; they learn something about various schemata, scripts, procedures, and techniques that can be used in various types of real world business situations; and more. A student might learn from the course that he or she is really not cut out for what is required of a small business.

owner, which might be a very valuable thing to learn.

The ASB course teaches is that rarely if ever is there one answer for a small business problem that is provably true. Students learn how uncertain things are out there. They learn how hard it is to solve some business problems, and that some business problems may have no positive solution at all, once the milk has been spilled.

### ***Irresponsible Employees***

Some business problems are like chronic illnesses that won't kill you. Rather than problem-solving skills, what you need are problem-coping skills. Take the problem of high turnover and irresponsibility among low-wage workers in small businesses. Most small business owners would like to hire good, loyal, responsible, capable employees for \$6 an hour when that is all they can afford to pay. But what are the chances of finding employees like this for \$6 an hour? Slim to none. You have to learn to live with high turnover, absenteeism, and poor attitudes. Sure there are some things you can do to make this problem less onerous than it might be, but there is no way you can make the problem go away paying \$6 an hour.

### ***Making Sales Go Up***

Almost all our SBI clients would like to increase sales, How do you do this? Advertise more or better? Over half of our SBI students spend time helping their clients figure out how to do this. Maybe 20 percent of the students invent new signs and logos for the businesses. We use the class as a focus group for this. Which alternative sign, words, design, etc. looks best in the opinion of the class?

Perhaps the most satisfied client we ever had is a podiatrist who had a student team design a logo for his signs and advertising. His signs and

logo now look better than his competitors', thanks to **our SBI students**. The students convinced the doctor that it looked better to show the whole foot, including the ankle and part of the calf, in his ads, rather than the toes and the sole of the foot as his competitors did and still do, and as he had been doing.

The foot doctor apparently thinks this has made his sales go up, since he has mentioned how much he likes his logo when he calls back to request more students to work on other problems. We have completed three cases for him during the last six years. This past spring he wanted some students to help him decide whether to open another branch in a nearby city.

### ***Getting Feedback***

Most of our SBI teams receive little feedback from their clients about how much their recommendations helped. It is not easy to make sales increase in most small businesses. While most small business owners wish sales would increase dramatically, most learn to live with slow growth rates. I suspect some of the clients who had not implemented any of the students suggestions by the end of the semester eventually did, after they gave the matter more thought after they read the final case report all teams are required to provide. We have had several clients request more student teams to work on new problems.

I often encounter clients years after the consulting occurred and I can tell they still appreciate something they got from the process. I think many clients simply appreciate the fact that business students are interested in what they do and sincerely want to make suggestions that will help, I do not ask past clients how they are doing financially. I wish them well, of course, but it is not really my business to pry into how well they are doing. Only a handful of our SBI clients wanted to share income statement and balance sheet data when the cases were written.



I would guess that more than 50 percent of our SBI clients are no longer in business.

### ***Firsthand Learning?***

Students often say the best part of SBI consulting and casewriting is that they gain firsthand knowledge of the business world. But what is firsthand knowledge? I suppose firsthand knowledge would entail seeing real objects, such as live small business owners, business buildings, land, equipment, products, customers, employees, and the like, and hearing and producing sounds in the form of words and thoughts with those objects. Would this experience produce more and better learning than reading about these objects in a book? Students also kinesthetically learn, i.e., they can feel objects in business environments. All people do not learn using the same sensory channels (Lankton, 1980) most of the time. Some are primarily visual learners relying on their eyes for receiving data and information; some are auditory learners, relying mostly on their ears; and others are kinesthetic, meaning they rely primarily on their feelings and bodily sensations. Others may be olfactory learners, meaning they make decisions based on the smell or taste of things.

All information processing, of course, involves the whole body, and all unimpaired people use all sensory channels to some extent. SBI work, on the other hand, entails much more kinesthetic learning than does normal classroom learning, because of the moving about that is required, and things may not "smell" right when studying certain businesses firsthand.

### **Situational Learning**

It seems to me the most valuable learning gained through SBI work is knowledge gained about business situations and what might be done to deal with them. SBI work enables students to gain what Williams (2000) calls factive mental

state operators, or FMSOs, which is knowledge based on the experiencing of facts.

### ***Scripts***

In a class of 30 students with 10 live and 10 paper SBI cases, students are exposed to hundreds of situations. Experiencing and talking about the cases in and out of class causes students to learn something about the scripts used day in and day out in various small business situations. A script (Stapleton, 1976; Shank & Abelson, 1977; Abelson, 1981; Gioia & Poole, 1984; Lord & Kernan, 1987; Stapleton & Murkison, 1990; Stapleton, Murkison, & Stapleton, 1997) is a repetitive sequence of words, phrases, and actions that is typically used in a particular situation. Different kinds of small businesses entail different scripts, as do different functional areas within businesses. Accountants have different scripts than salespeople and production supervisors have different scripts than personnel managers, etc. The nature of the situation causes customers, employees, and others to use certain words and phrases and make certain bodily movements. People talk and act differently in banks, lumber yards, repair shops, restaurants, gift shops, taverns and pubs, discount stores, specialty stores, farm supply stores, and other types of businesses. SBI students can see and hear that these scripts vary from business to business as they experience businesses firsthand.

### ***Schemata***

Another valuable thing students gain from SBI work is that they learn something about what to look for and focus on in the small business environment. They learn something about what questions to ask and not ask. This entails schema learning.

A mental schema (Neisser, 1976; Anderson, 1977; Stapleton, Murkison, & Stapleton, 1997) is a format statement stored in brain memory,

based on past experience, that tells a person what to read into the brain via a sensory channel. A schema is somewhat analogous to a template or cookie cutter that enables a person to recognize and create certain shapes in the environment. According to Von Forester (1984), to perceive is to invent and we mainly perceive what we have already experienced. There are many different kinds of schemata used to recognize and perceive various objects in the environment, chairs for example. One will have a hard time knowing what a chair is if one does not have a chair schema stored in brain memory, created by seeing a chair in the past. The same is true of an income statement schema, or a cash flow schema, or whatever. The same goes for almost any object, including small businesses of various types. How would one know what is a retail business if she or he had never seen one and created a retail schema? SBI consulting and casewriting enables students to develop more accurate schemata regarding different objects in the small business environment, objects the students would not have seen in normal dealings with businesses as customers or employees, because the relationships created by the SBI consulting give students a more comprehensive view than those afforded customers and employees.

When different perceptions about these objects are debated in class discussions and students learn new schemata from students who convince them that their old schemata are not the best. According to Anderson (1977), schema change, that is learning to see and cognize new objects or old objects in a different light, is the sine qua non of significant learning

The most important schema for small business is a cash flow statement. It takes cash to pay your bills, and so long as you can do this you are ok.

### ***Learning by Making Recommendations***

Making recommendations enables students to learn something about the probabilities of various

strategies, ideas, suggestions, processes, procedures, scripts, and schemata actually working in particular business situations. Clients who reject and accept recommendations teach students something about the probabilities of alternative strategies, ideas, suggestions, processes, procedures, schemata, and scripts actually working.

### ***Learning by Arguing***

At the same time, students who are relative experts because of past experience working in businesses similar to those under discussion will advocate certain ideas, strategies, processes, procedures, schemata and scripts for those businesses. This often causes other students to learn new scripts, schemata, processes, and the like, if the discussions are generally democratic, dialogical, and dialectical, which means students argue their opinions freely on an equal basis in the class.

Giving up or unlearning scripts and schemata that would be inappropriate in a given situation is sometimes more valuable than learning new scripts and schemata in the first place. How many people have failed in a business because of instantiating (Shank & Abelson, 1977, p. 41) schemata and scripts learned in previous situations that are inappropriate in the present situation?

Success over the long haul for entrepreneurs and small business owners largely depends on doing the right thing, which is not an easy thing to do. In the first place, doing the right thing entails knowing what to do in a particular situation in the here and now that has not yet been fully experienced. This entails not only knowing what kind of situation one is in but also what will generally work in such a situation.

**References will be furnished by the author upon request. Email: [rjstapln@gasou.edu](mailto:rjstapln@gasou.edu).**

# THE STRUCTURE OF UNDERRADUATE ENTREPRENEURSHIP PROGRAMS AT AACSB SCHOOLS

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## ABSTRACT

Institutions of all types are increasingly creating centers for small business and entrepreneurship as well as offering entrepreneurship course work and oftentimes a major in entrepreneurship. Granting organizations, federal agencies and private donors are also taking an active role in promoting entrepreneurship at the postsecondary level. This research is a result of this high profile interest.

AACSB schools with undergraduate programs in entrepreneurship were selected as the study population. Schools were then contacted requesting information on how their entrepreneurship program is structured, web sites were utilized and professors were contacted. Missouri Western's Students in Free Enterprise (SIFE) team conducted the majority of the research. The results present various options for creating centers for entrepreneurship and developing entrepreneurship academic offerings within undergraduate programs seeking to start or expand their academic entrepreneurial efforts and small business outreach.

## INTRODUCTION

The Association to Advance Collegiate Schools of Business (AACSB) is widely regarded as the primary accrediting agency for post-secondary business programs. According to their web site, AACSB schools award over 85% of all U.S. degrees awarded in business and management education while accredited programs award over 55% of all US degrees in business and management. AACSB has promoted the values

of business education since 1916 and continues to promote the expansion and improvement of business education through the refinement of existing programs and the addition of others. Entrepreneurship is one of the newest disciplines or concentrations offered at many accredited AACSB schools.

Entrepreneurship as a discipline and as a teachable skill is increasingly being offered at some level in business schools across the US. However, the integration of entrepreneurship classes, faculty and students has taken on a variety of formats. Seeking a greater understanding of where entrepreneurship education currently lies, the current study examined all the AACSB accredited four-year degree undergraduate entrepreneurship programs in the US. Many schools, even those currently accredited, are refining their entrepreneurship programs. This research offers a foundation upon which to relate other programs of entrepreneurship when considering course changes and additions, or initiating new entrepreneurship academic programs.

## THE SCHOOLS

The study population was AACSB accredited schools offering an undergraduate major degree in entrepreneurship. Given their AACSB accreditation, the following 58 undergraduate entrepreneurship programs can be assumed to have been rigorously reviewed and to offer the best overall examples of how entrepreneurship is currently taught in the US. The schools are:

- 1.The University of Alabama

2.The University of Arizona

3.University of Arkansas at Monticello

4.Auburn University

5.Babson College

6.Baruch College - The City University of New York

7.Baylor University

8.Brigham Young University

9.California State University -Fullerton

10.California State University - Hayward

11.California State University - Los Angeles

12.Canisius College

13.Central Michigan University

14.Colorado State University

15.University of Connecticut

16.Creighton University

17.Eastern Michigan University

18.Fairleigh Dickinson University

19.University of Georgia

20.Georgia Institute of Technology

21.Georgia Southern University

22.University of Houston

23.University of Illinois at Urban Urbana-Champaign

24.Indiana University

25.University of Louisiana at Monroe

26.Louisiana State University

27.Louisiana State University at Shreveport

28.Louisiana Tech University

29.Millikin University

30.University of New Mexico

31.New Mexico State University

32. University of Miami

33. Middle Tennessee State University

34. The University of North Carolina at Charlotte

35. The University of North Caroline at Greensboro

36. The University of North Dakota

37. Northeastern University

38. Northern Michigan University

39. University of Notre Dame

40. University of Oregon

41. Pace University

42. University of the Pacific

43. Pacific Lutheran University

44. Rider University

45. St. Mary's University

46. University of St. Thomas

47. San Francisco State University

48. University of Southern California

49. Southern Illinois University Carbondale

50. Syracuse University

51. Temple University

52. University of Tennessee at Chattanooga

53. The University of Texas at San Antonio

54. University of Vermont

55. University of Washington

56. Western Carolina University

57. Wichita State University

58. Winthrop University

STUDY AREAS

The 58 programs were investigated four different ways.

1. Did these schools offer formalized outreach programs in the form of a Small Business Development Center (SBC), SIFE chapter and Small Business Institute (SBI)?

2. What type of course work was offered?

3. Where is the degree situated in the academic structure of the school?

4. How many courses are dedicated to entrepreneurship amounting to how many credit hours?

FORMALIZED OUTREACH

Formalized outreach was defined as three programs; SBDC, SIFE and SBI. All schools offered various types of small business outreach such as an entrepreneurial center, faculty and student consulting, or continuing education courses. However, the variety and degree of similarity is nearly impossible to evaluate

without active participation with the school's outreach program. For that reason, the more formalized organizations were chosen given that

they are, relative to other outreach efforts, standardized.

Program	SBDC	SIFE	SBI
Schools number	12	1	7
School %	20.1%	1.7%	12.1%

The one school that actively promoted their SIFE chapter, Temple University, has a required SIFE course as part of their entrepreneurship major. With only 12% of AACSB undergraduate accredited schools promoting SBI, the opportunity for chapter expansion would appear to be high. Northeastern required SBI for a total commitment of 8 semester hours.

TYPE OF COURSE WORK

The type of courses offered at the 58 AACSB accredited undergraduate entrepreneurship programs had a few similarities, a number of relatively common courses and a range of unique offerings. The goal of this study was to count the number of type of courses dedicated to entrepreneurship and small business. Too many times, schools offer a major concentration in entrepreneurship or small business while offering courses from the general business catalog making up the bulk of the major

emphasis course work. Those general business courses, even if required for the entrepreneurship major, were not counted in this study. The research goal was assessing classes with an entrepreneurial focus, not those classes with a general business focus. In order to be counted, the class had to be dedicated to the unique needs of the entrepreneur or small business owner. Class catalog title and description or the syllabus needed to reflect a small business or entrepreneurship focus and comprise the majority of course work; for example, all schools require some type of management course as part of their general business curriculum, but when examining the course components of the entrepreneurship major, management was only counted if the class was dedicated to small business. Rarely did all the course hours required for the entrepreneurship major include all small business courses.

Approximately half the schools or more offered the following four courses:

Class	Management	Entrepreneurship	Experiential	Business Plan
School number	42	38	31	27
Schools %	72.4%	65.5%	53.4%	46.6%

- Management: 42 schools, 72.4%, offered a class built around the discipline of management and the unique management needs of entrepreneurs and small businesses.
- Entrepreneurship: 38 schools, 65.5%, offered a class built around introducing the concept of entrepreneurship; what it is, current

research, unique needs and support networks. This course was not strictly a business plan course, although some schools included business plan overview as part of the introductory course. However, if the class entailed writing a business plan or spend more than half the course studying business plans, the course was then counted as a business plan course.

- Experiential: 31 programs, 53.4%, required an experiential learning class dedicated to small business. Additional schools had experiential learning, but the class did not focus on learning with an entrepreneur or a manager of a small business.
- Business Plan: 27 schools, 46.6%, required a class dedicated to developing and writing a business plan as the main focus of the class.

Other courses dedicated to entrepreneurship offered by 15-25% of schools were

Class	VC/financing	Marketing	Finance	Family	Sales/growth
School number	14	13	10	10	9
School %	24.1%	22.4%	17.2%	17.2%	15.5%

- Venture Capitalists and/or Financing: This class category, required by 14 schools or 24.1%, dealt primarily with educating students how venture capitalists and angel financing worked and the preparatory steps required for acquiring investors. Additional topics were other external financing possibilities.
- Marketing: Marketing strategies specifically for the small business owner and entrepreneur were offered by 13 accredited programs or 22.4%. Virtually all business schools require marketing in their core curriculum, but just over a fifth of programs offer a dedicated small business marketing class.
- Finance: Not to be confused with financing a small business, finance was concerned with the internal financial operations of the small business and was offered by 10 programs or 17.2%.
- Family: 10 accredited programs or 17.2% offered a class dedicated to the unique needs of the family operated small business.
- Sales/growth: 9 colleges or 15.5% dedicated a class to the development of sales and growing a small entrepreneurial business.

The following courses dedicated to entrepreneurship were offered by 10% or less of

Vermont has the greatest emphasis with a 9-hour class; however, their only other class dedicated to entrepreneurship is their introductory course. Washington also has a strong focus; an 8-hour, two-sequence class. Interesting how this most vital of planning functions was not offered at over half the AACSB accredited schools.

AACSB accredited undergraduate entrepreneurship programs.

- Accounting
- Venture Development
- Franchising
- Legal
- Global
- Social Entrepreneurship
- E-business
- MIS
- Corporate entrepreneurship/intrapreneurship
- Feasibility

The following dedicated entrepreneurship courses were offered by one AACSB accredited program.

- Ethics
- Professional Skills
- Economics
- Leadership/organization behavior
- Selling
- Negotiation
- Taxation
- Creativity
- Strategy
- Seminar

## DEGREE OFFERED

The type of degree offered was split fairly even among the studied schools with one exception. California State University at Hayward offers their entrepreneurship degree as an emphasis area within marketing. All other schools offered their degrees in one of three ways; as a

concentration area under a BS/BSBA, a concentration within management or as a stand-alone entrepreneurship major. The number of schools and the corresponding percentage are presented below.

Degree Program	Concentration within Management	BS/BBA	Entrepreneurship major
School number	25	17	15
School %	43.1%	29.3%	25.9%

## DEGREE REQUIREMENTS DEDICATED TO ENTREPRENEURSHIP

Schools were just as varied in their degree requirements as they were in the courses offered dedicated to entrepreneurship. For an entrepreneurship concentration in management, the number of classes dedicated to entrepreneurship varied from 1 to 7. The median was 3 and the mean 3.5. Naturally, these accredited schools required dramatically more hours in their business and management core to graduate; however, the number of courses dedicated to entrepreneurship, i.e. with a course title and catalog description or syllabus reflecting a small business or entrepreneurship focus and comprising the majority of course work, seemed surprisingly low. If the average undergraduate needs around 123 total hours to graduate (41 three-hour classes) this entrepreneurship major will take 7.3% of their course work dedicated to entrepreneurship.

A bachelor's degree in business with an entrepreneurship major was slightly higher, with a median of 3.5 and a mean of 3.9, i.e., the number of classes dedicated to entrepreneurship. Using the same total hours for graduation as above enrolls the typical undergraduate in 8.5% of their course work in dedicated entrepreneurship classes.

Majors in entrepreneurship would have the highest enrollment in classes dedicated to entrepreneurship with a mean of 5.9 and a median of 5. The mean number of classes required to graduate with a degree in entrepreneurship versus the mean value for a management concentration or BS/BBA is greatly assisted by Central Michigan University and Babson who both offer over 10 classes dedicated to entrepreneurship. Out of the 17 AACSB accredited schools offering a degree in entrepreneurship, 9 offer 4 or 5 classes dedicated to entrepreneurship.

## CONCLUSION

Program variety within undergraduate degrees in entrepreneurship and small business are as varied as the schools offering such programs accredited by the AACSB. One area of improvement and future research would be a concerted effort at gathering all the syllabi from the above mentioned courses and reviewing teaching methodologies, texts and format. For whatever reason, less than half the schools contacted were willing to supply syllabi. Another aspect for future research would be the age of these course topics; for example, how long have schools been teaching small business finance? Is this course material so new that few

schools have had time to add the course? What explanation can be discovered to explain the width of entrepreneurship course offerings but the lack of depth across schools?

Entrepreneurship programs vary significantly in the number of courses offered that are dedicated to entrepreneurship while reflecting an equal variety in the type of courses offered. This is an interesting paradox; the class material would appear to exist, professors are able to conduct research and the current knowledge base of entrepreneurship would appear to be vast. Obviously schools can do more to increase their course offerings and the wide variety of courses offered presents myriad ways to enhance and expand current degree programs. Unfortunately, with a few exceptions, a significant majority of schools do not offer an academically significant number of dedicated entrepreneurship classes. For those schools seeking AACSB accreditation, or adjusting their entrepreneurship program, the above classes and academic structures may serve as a guide.



# **Who Wants To Start A Business?**

## **An Exploration Comparison of Caucasian and Minority Entrepreneurs**

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### **Abstract**

The literature indicated that high failure among small businesses was associated with insufficient funds, lack of information and skills, and poor business planning. It is important to understand what entrepreneurs need to know, how they seek information and guidance, how they evaluate assistance from a local SBDC, and what they decide to do once they collected information for business planning. This article reports the results of an on-going study to evaluate the effectiveness of a SBDC "Starting And/Or Financing Your Small Business" workshop by comparing the responses between Caucasian and Minority entrepreneurs. Minority workshop participants showed different perceptions than Caucasian participants in terms of the reasons of participating in the workshops, interests in learning about business planning, and self-evaluation in venture creation after participating in the workshop.

### **Introduction**

The National Federation of Independent Business (NFIB) conducted a survey in 2001 to find how and where people seek advice when starting or running their businesses. The survey found that a significant proportion of the business owners consulted their spouses and other family members about business decisions. Only a few business owners acquired professional advice or guidance from lawyers, accountants, suppliers, investors,

and others. Various studies have discussed the high failure rates among small businesses or new ventures. Key factors associated with high failure rates included insufficient funding, lack of experience or appropriate knowledge in starting or running businesses, and poor business planning and development strategies. For those entrepreneurs who need help in starting or running the businesses, seeking professional assistance beyond family members might reduce the risks and avoid the threat of the failure. There exists some literature specifically related to Minority (ethnicity) entrepreneurs and their business experience. However there has not been enough information to compare and contrast the business expectations and experience between Caucasian and Minority entrepreneurs.

The U. S. Small Business Administration has developed and supported Small Business Development Centers (SBDCs) across the country to provide entrepreneurs and small business owners' assistance. SBDCs usually provide training opportunities for entrepreneurs to prepare them to start or run their businesses through workshops and other continuing education programs as well as one-on-one counseling. This article presents a preliminary report of an on-going study associated with the impact on participants of one workshop provided by one SBDC in Louisiana. This workshop, *Starting and/or Financing Your Small Business*, is a three-hour workshop that is conducted every three weeks. The workshop has evolved somewhat since it was started in 1984 into the current configuration based on work with participants after their participation in the program. The goals of this workshop are to provide entrepreneurs

what they need to know before starting or expanding their businesses, to guide entrepreneurs who want to "get a handle" on their business, and to assist entrepreneurs to get their business properly planned for the long run. It is critical for SBDC staff to understand whether this workshop meets the expectations of the participants, whether entrepreneurs have gained sufficient information after attending the workshop, and how the entrepreneurs would use the information they have obtained from the workshop.

There is limited information regarding the SBDC impact analysis associated with participants' expectations, their perception of starting or expanding the businesses, and how ethnicity relates to their business decisions. A survey instrument was designed and tested for workshop participants to gather information of their perceptions immediately following the workshop. *The objective of this article is to compare and contrast the responses between Caucasian and Minority entrepreneurs, in terms of (1) their expectations in participating in the workshop, (2) their perception of the business process after the workshop, and (3) how they intend to use the information and assistance from the SBDC after attending the workshop.* Specifically the Minority entrepreneurs included African American, Asian/Pacific Islander, Hispanic, and American Indian. This study serves as an example for other researchers and SBDC personnel to design their own impact study. The results of this study will benefit researchers as well as practitioners who work with entrepreneurs to understand the differences between Caucasian and Minority entrepreneurs in their assessment of the business planning process. A summary of the literature review is provided in the next

section, followed by methodology, results, and conclusions.

## **Review of the Literature**

Entrepreneurship has been a mystery to most of the researchers. The learning process in new venture creation has become an important issue in recent years. An early study of entrepreneurial training found that "...an entrepreneur must have the necessary skills to transform his desires and hopes into overt actions." "...entrepreneurial behavior can be learned." Durand (1974, 23ff). Several studies demonstrated that entrepreneurship education could have a substantial impact in meeting learners' needs and in leading to the creation of new ventures which have a substantial, significant employment and economic potential. (Clark, 1984; Ronstadt, 1985; Ibrahim, 1986). A new trend in entrepreneurship where Generation X became the dominating decision makers in our economy has been identified (Forbes, 1995). Generation X wants control, power, independence, and aggressively seeking profitability. However those who would not or could not pay attention to the challenges fell down the ladder to their dream world, Small business failure often involves lack of funds, insufficient experience or knowledge, inappropriate skills, overwhelming optimism, liquidity constraints, inefficient market evaluation, lack of professional advice, and poor management (Acs, et al. 1999; Ryan and Stewart, 1994; Brandstatter, 1997; Muzyka, Birley, and Leleux, 1995; Demeza and Southey, 1995; de Meza and Southey, 1996; Holta-Eakin, Joulfaian, and Rosen, 1993; Churchill, et al. 1987; Ronstadt, et al. 1986; Nye, 1991; Lee and McKenzie, 1993; Holtz-Eakin, Joulfaian, and Rosen, 1994; Ellis and Taylor, 1988; Muzyka, 1988; Duchesneau and Gartner, 1988; Cooper, Dunkelberg, and Woo; 1988; Porter, 2002; Brodsky, 2001; Zacharakis, Meyer, and DeCastro, 1999; Velenchenko, 1998; Whittemore, 1998; Butler, 1996; Carter, Gartner, and Reynolds, 1996). Some

literature discussed the emerging trend of increasing Minority entrepreneurs in the US and their business development influences on the economy (Brimmer, 1998; Muhanimed, 1999; Murphy, 1999; Burg and Kautzman, 1998; Jones, 1998; Wade, 1997; Baskerville and Gite, 1996; Clarke, 1996; Donley, 1996). Several researchers suggested that entrepreneurs should learn from their experience, listen to advice, take calculated risks, and not be afraid to start again (Brodsky, 2001; Whittemore, 1998). Young and new entrants should explore the opportunities to integrate into their communities, play an active role in local events, and seek appropriate assistance by visiting local chambers of commerce and Small Business Development Center (Pofeldt, 1997; Huggins, 1996). A few articles had discussed the function of SBDC and their impact on various entrepreneurial groups, such as youth and minority entrepreneurs (Hersh, 1996; Hoy, 1982; Knight and Ferguson, 1984).

Although previous literature has covered a wide range discussion of small business failure, minority entrepreneurship development, and some work on SBDC's in different areas, there has been limited information associated with the effectiveness of certain functions in SBDC. A routine impact analysis of the SBDC often report the quantitative measurement associated with clients, such as number of ventures assisted and created, the value of the equity investment, number of jobs created by new ventures, and funds received by consulted entrepreneurs. There has not been any research designed to assess the effectiveness of any specific SBDC programs related to the reactions of different participants. Especially in Louisiana where the Minority entrepreneurs play a key role in economic development, one would wonder if Minority

entrepreneurs respond differently to the workshops compared to Caucasian entrepreneurs. This study followed the suggestions from previous literature to examine the motivation of starting the businesses, learning experience, and self-evaluation from Minority entrepreneurs and Caucasian entrepreneurs. This research would also fill some gaps in previous studies to further examine how entrepreneurs' perceptions differ among Caucasian and Minority entrepreneurs when preparing to start new ventures. From entrepreneurs' perception, several categories of the hypotheses had been developed to test (1) whether there was any difference in expectations associated with SBDC workshops among Caucasian and Minority entrepreneurs, (2) whether there was any impact on personal assessment in business development after attending the SBDC workshops among Caucasian and Minority entrepreneurs, and (3) how each group will proceed after the workshop.

## **Methodology**

This research focuses on one SBDC in Louisiana that offered a free *"Starting andlor Financing Your Small Business"* workshop every three weeks. Entrepreneurs sign up to participate voluntarily. On average there are 20 participants in each workshop. The workshop content includes a discussion of a business description, management plan, financial plan, marketing plan, and sources of funds for business start up or expansion. Participants learn about the expectations of various audiences (loan officers, investors, and others) who might use the plan for decision-making. After the workshop, participants who were serious about the business process should be able to provide the information needed so that SBDC staff could assist them in business planning. Historically, approximately 10 to 15 percent of the workshop participants do seek additional assistance from the SBDC. A much smaller proportion actually starts or expands their businesses and their progress has been monitored.

A survey instrument was designed and tested for the workshop participants. Survey questions covered demographic information and entrepreneurs' expectations and perceptions of the workshop. Demographic information included residency, gender, age, marital status, and ethnicity. Entrepreneurs' perception regarding the workshop included their expectations of the workshop, information they learned in the workshop, self-evaluation in the business planning process immediately following the workshop, and use and recommendation of the use of the SBDC in the future. This is a continuing study and the current report is based on participants who participated in the workshop in the summer of 2002. Each entrepreneur was asked to complete a survey questionnaire immediately after the workshop. If others attended the workshop with the entrepreneurs and were going to be involved in the business as a partner, they were asked to complete a survey. Totally eighty-seven surveys were distributed, and approximately 10 percent of the participants did not complete the questionnaire.

Multiple hypothesis tests were conducted to test for significant differences between categorical responses (Caucasian versus Minority entrepreneurs). Several sets of the hypothesis test were used to verify (1) demographic information related to their ethnicity, (2) expectations and reality assessment of the business planning process, and (3) their plans for proceeding and future use of the SBDC. Demographic information compared age, gender, marital situation between Caucasian and Minority entrepreneurs. Variables associated with expectations and reality responses from entrepreneurs' perception included possible reasons to participate in the workshop, information needed for the business process, financial situation, family attitude, and

willingness to use SBDC in the future for more assistance. Since most of the responses to the questions were revealed by level choices (for example, age under 25 or over 66) or preferences (very important or not important at all, agree or disagree), categorical data analysis is more appropriate to compare the responses between Caucasian and Minority entrepreneurs. Two instruments were applied to test the differences in two categories (Caucasian versus Minority: *Chi-square* test and *Gamma* test. Both *Chi-Square* test and *Gamma* test can be applied to answer the question when analyzing ordinal data: "does Y tend to increase as X increases ? " (Agresti, 1990). While *Chi-Square* uses the proportion of the responses in each category to compare the differences, *Gamma* uses the number of responses in each category to compare the differences. There is usually an assumption about normally distributed population for applying *Chi-Square* test. When applying *Gamma* test procedure, there is no assumption about the probability distribution for the population. When sample size is large enough, the test results from both procedures should reach the identical conclusions. P-values were calculated for both of the tests in all categories.

### Responses to Demographic Information

Over two-thirds of the participants were Caucasian. Most of the participants were female, 77.4 percent of Caucasian participants and 66.7 percent of the Minority participants. Most respondents were generally over 25 and under 45 years of age. Singles accounted for 33.3 percent of the Caucasian and 45.8 percent of the Minority participants. Single parents represented 13.0 percent of the Caucasian and 8.3 percent of the Minority participants. Married participants accounted for 42.6 percent of the Caucasian and 45.8 percent of the Minority group. There were no statistically significant differences between the two groups related to demographics information. Most of the participants, 73.6 percent of

Caucasian and 91.3 percent of Minority participants wanted to start a new business; 9.4 percent of Caucasian and none of Minority participants wanted to buy a business; and 17.0 percent of Caucasian and 8.7 percent of Minority participants had otherwise acquired their business (inheritance and/or assuming from previous owners).

### **Aspects of Participating In The Workshop**

Previous literature revealed the factors in small business failure, such as poor business planning, insufficient business knowledge or market information, and lack of funds. It is important to find out what entrepreneurs think is important for them in attending workshops on business planning and what they expect to learn from the workshop. Entrepreneurs responded to a series of questions about their learning expectations and ranked the importance for each questions (very important, important, not important, not at all important). Seventy-five percent of Caucasian participants and 91.3 percent of Minority participants felt learning to write a business plan was very important. Learning how to apply for a loan was very important or important to 80.0 percent of Caucasian participants and 95.9 percent of Minority participants. To 79.3 percent of Caucasian participants and 87 percent of Minority participants, learning where to apply for a loan was very important or important. A very high proportion of the entrepreneurs felt that learning how to estimate expenses was very important or important (94.4 percent of Caucasian participants and 95.8 percent of Minority participants). Majority entrepreneurs wanted to learn how to estimate sales (92.3 percent of Caucasian participants and 95.8 percent of Minority participants). Learning how to define target

markets was very important or important to 90.6 percent of Caucasian participants and 95.8 percent of Minority participants. Finding customers was very important or important to 81.2 percent of the Caucasian participants and 91.6 percent of Minority participants

Finding skilled labor was often identified in the literature as a potential problem for entrepreneurs. There was a significant difference between Caucasian and Minority entrepreneurs when asked about finding employees. Sixty-five percent of Caucasian participants felt that learning how to find employees was very important or important to them compared to 87.0 percent of Minority participants. To 90.8 percent of Caucasian participants and 87.5 percent of Minority participants, learning how to create a business was very important or important. Interestingly a significant higher proportion of Minority participants (79.1 percent) wanted to learn how to expand a business compared to Caucasian participants (53.9 percent). Curiosity about the business planning process was very important to 94.2 percent of Caucasian and 91.7 percent of Minority participants respectively. Clearly the purposes for attending the workshop according to the sample revolved around business planning, marketing, and financing the business ventures for both Caucasian and Minority participants.

### **Reactions to Business Planning Process After The Workshop**

What did entrepreneurs learn after three hours of participation in the workshop? Did they understand the process of business planning better than before? Would they be able to use the information and knowledge? Did they think the same way about the venture creation as before the workshop? Were they ready to embark on the business process? Many of the workshop participants (67.3 percent of Caucasian and 70.8 percent of Minority) agreed that planning seemed complicated. There seemed to be some statistical

significance regarding different perceptions of the business planning process between Caucasian and Minority entrepreneurs.

Participants believed that the planning process would not involve a lot of work (92.5 percent of Caucasian and 79.2 percent of Minority participants), would not take a lot of time (90 percent of Caucasian and 75 percent of Minority participants), and would not require a lot of effort (91.7 percent of Caucasian and 82.6 percent of Minority participants). It is interesting to see that the majority participants were optimistic about the business planning process. However based on previous experience with workshop participants, only 10 to 15 percent participants actually collected the information necessary to do a business plan. This lack of actively pursuit of a new venture may result from entrepreneur's perception of the work, time, and effort required to research and complete a business plan.

Although the entrepreneurs felt that the business planning was a very straightforward process, participants might come to a different reality regarding their business idea and their personal and family readiness to embark on a new venture. Some, 21.8 percent Caucasian and 33.3 percent Minority participants felt, that their idea seemed risky after the workshop. Some also felt that they were not ready to start a new venture (18.2 percent Caucasian and 26.1 percent Minority participants). Most may have realized that the venture would require more money than they had expected (69.1 percent Caucasian and 68.2 percent Minority participants) and they did not have enough money to start the venture. Over forty percent in both groups (45.5 percent Caucasian and 43.5 percent Minority) felt they needed more business knowledge. Most participants (87.0 percent Caucasian and 91.3 percent Minority) felt that their families would support them in the

new venture. A significant proportion of entrepreneurs did not want to work for others (88.7 percent Caucasian and 73.9 percent Minority). The workshop participants definitely revealed similar characteristics for entrepreneurs as indicated in previous literature -optimism, desire to be in control, and desire to be their own boss.

Participants were also asked about their intentions related to the new venture after participating in the workshop. Almost all participants (90.6 percent Caucasian and 100.0 percent Minority) indicated that they still wanted to start their new venture. Most agreed (96.1 percent of Caucasian and 100.0 percent of Minority participants) that they would collect the necessary information to plan their venture. There was a statistically significant difference in the willingness to try the planning process. A little over a third of the Caucasian participants indicated that they would try to plan their venture, comparing to 69.6 percent of Minority participants. Interestingly, 33.3 percent of Caucasian and 40.9 percent of Minority participants indicated that they would plan the venture themselves, evidently with assistance from the SBDC. Both groups agreed that they would seek SBDC assistance (90.6 percent of Caucasian and 100.0 percent of Minority participants). Similarly, 96.2 percent of Caucasian and 95.0 percent Minority participants agreed that they would seek SBDC counseling, and 98.0 percent of Caucasian and 95.5 percent of Minority participants indicated they would plan using SBDC assistance. Most participants (72.3 percent of Caucasian and 75.0 percent Minority) indicated that they would seek a loan to start their venture. Some participants may have adequate personal resources to start their venture and may not need to borrow money. However, participants who have the needed resources were still encouraged to do a business feasibility study.

One purpose of this study was to determine how workshop participants felt about the workshop and the SBDC, whether they would recommend the workshop to others and work with the SBDC. Most entrepreneurs (88.7 percent Caucasian and 100.0 Minority participants) felt the workshop provided sufficient information needed for planning the business. Both groups of entrepreneurs would recommend the workshop and the SBDC services to others.

### **Summary, Conclusions, and Implications**

The process of starting a new venture brings various feelings and experiences to entrepreneurs. The business, started as a dream idea, could be tough when the dream does not coincide with reality. Entrepreneurs might not realize the challenges of the business planning process until they seek professional guidance. This study has shown some similarities between Caucasian and Minority entrepreneurs in their demographic information. The study revealed something interesting that deserves further attention -majority of them were female, most of them were between 25 and 55 years old, a significant proportion were married, and most of them planned to start the businesses instead of buying existing businesses. These findings seemed to coincide with the previous literature that indicates a increasing trend in female entrepreneurship, Generation X, and new venture creation. However Caucasian entrepreneurs were the dominating audiences in the workshops, and this had not been discussed in previous literature. It will be interesting to study the composition of the participants and expand the sample size for this study.

Numerous studies had discussed the trend and changes in African American entrepreneurs, but did not have sufficient information regarding other ethnicity (Hispanic, Asian, and others). This research was designed to gather a broader understanding among various ethnic groups engaged in the business planning process. The Minority workshop participants showed a different perception compared to Caucasian participants in many ways. More Minority participants tended to believe stronger that it was very important to learn how to write a business plan, how to apply for loans, where to apply for loans, how to estimate costs and sales, how to define target market and find customers, how to find qualified employees, and what it would take to start or expand businesses. More Minority participants also tended to agree that their business ideas were risky, they might not be as ready as they thought, their family would support them in the business process, but they would rather work for others for a while. On the contrary, more Caucasian participants tended to be more optimistic about the business planning process and seemed to feel that they were better prepared. The results of this research also indicated that more Minority entrepreneurs are more likely to will seek professional assistance from SBDC than Caucasian entrepreneurs. These findings had not been discussed in previous literature, and would be useful for SBDC or other practitioners to know in terms of assisting clients. A sound business plan and a more prepared entrepreneur provide a better foundation for a successful business. The function of the SBDC is to provide professional guidance for entrepreneurs who are willing and ready to take calculated risks in a new venture. The results of this study will benefit entrepreneurs, researchers, and practitioners by providing an understanding of how Caucasian entrepreneurs and Minority entrepreneurs assess new venture creation.

Future studies could be expanded to: (1) increase the sample size and response rate so that the responses could be more representative, (2) interview or survey those entrepreneurs who decided not to start the new ventures after the workshops to find out why they did not proceed on their business idea, and (3) conduct continuous surveys over time to follow up with participants and to determine if there are trends or patterns among various ethnic groups of entrepreneurs.

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## Expanding SBI Activities Into Taxation: Taking Advantage of a Friendlier IRS

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**Abstract** Without being a tax expert, the SBI Director can provide valuable tax information directly, or provide references to IRS programs that will benefit the SBI Client. The IRS has expanded its taxpayer assistance programs, and some of these programs are probably available on the local campus, or at least in the local community. The IRS programs use students to perform tax preparation services under the guidance of a faculty member and therefore a natural affinity exists with the SBI and the SBI Director. This article encourages exploring these potential relationships and at a minimum lists the availability of a variety of materials that can be obtained free of charge and provided as value added for the SBI clients.

### Introduction

As SBI Directors, in the SBA funding days, we were used to hearing the standard joke goes, "Hi, I'm from the government and I'm here to help you." Even worse would be, "Hi, I'm from the IRS and I'm here to help you." A first reaction to this paper might be something like the old joke, but believe it or not, the IRS is ready to help. Public outcries and some intense Congressional scrutiny caused some serious changes by our good friends at the Internal Revenue Service.

Businesses approach the SBI for assistance for the same reasons that taxpayers (including small businesses) approach the taxpayer assistance programs for help. They do not have the personal resources, either knowledge or the finances to obtain professional help through normal means. SBI clients are told through the management reports that they should obtain

legal, accounting and taxation advice from professionals, but often this advice is expensive and the client is unable or unwilling to seek it.

The SBI uses a faculty directed, student delivered service to local businesses to help them in a variety of problems, from general business planning, marketing studies, and sometimes financial accounting and taxation. One reason that SBI Directors should be interested in the IRS programs is that the same model (faculty supervised/student delivered) is actively used in their programs and they are convenient because they already exist on campus or in the community.

The Internal Revenue Service sponsors an experiential learning program called the Volunteer Income Tax Assistance (VITA) program. The objective of such programs when they are offered on a campus is to provide free tax assistance and to teach and certify the students for this work. Many accounting/taxation departments use this program as a service learning opportunity for students. While the purpose of the VITA program is not small business taxation, it is often the result. While the declared purpose of the VITA program is for low income and the elderly, most programs do not limit their clients, and in fact, look forward to attracting some small businesses because it rounds out the experience for the students.

The purpose of this paper is to explore ways that the local Small Business Institute can cooperate with the local VITA program (and some others) at the university or in the

community and thereby offer a well-rounded service to its clients. Also included is a list of specific suggestions and contact phone numbers and websites for making references or establishing relationships with available programs.

### **SBI Clients and Accounting and Taxation**

SBI clients rarely have the ability to maintain their accounting systems and to prepare their own taxes. Usually the small business person is reliant on an accounting professional (Saunders and Bradley, 1993) The best advice would be to engage professional help to both maintain their systems and to prepare tax returns for federal, state and local compliance. Of course, cost is a factor and often discourages the small business person from seeking this assistance. Especially just after startup these businesses are likely to have few resources to hire this help. Accounting and Financial knowledge is most likely to be in short supply for the starting business person (Taylor and Chorg, 1996). In their article on issues facing a small business, Spiller and Huneycutt listed the failure to plan for the variety of taxes owed as a cause of failure in small businesses. (Spiller and Huneycutt, 1998) Accordingly, SBI Directors often need to include some accounting system advice because the books are not in sufficient form to produce meaningful financial statements and produce the numbers for tax compliance.

At Millersville University we often would try to place accounting students on each team to assist with the financial analysis but also to be in a position to make meaningful management report suggestions. Also, each semester there are usually one or two clients that fall into the specialized report category and the project involves setting up the accounting system and educating the client on the use of QuickBooks or other low-end accounting package. The fact that they need this help from

the SBI is an indication of their candidacy for the other taxation assistance discussed later in this paper.

### **The Internal Revenue Service**

The Internal Revenue Service has tried to create a more helpful and friendly public face in the light of some very negative publicity in the mid 90's. Aggressive prosecution of "innocent" taxpayers brought to light the complexity of the tax code and the need to offer assistance in advance rather than prosecution after the fact. Most of the IRS programs have existed for years, but repackaging and more aggressive advertising has been a recent emphasis.

The availability of electronic access to the IRS through its website has also helped in the delivery of services. While this was not the result of IRS initiatives, they have kept up with this technology and their website is as "friendly" as can be expected.

The IRS Assistance programs are available for both individual taxpayers and businesses. An SBI client can probably seek and obtain assistance at both levels. In addition to the personal assistance offered by their programs, the website and local IRS offices also contain considerable amounts of "how to" information which can address many problems.

### **Taxpayer Assistance Programs**

The Volunteer Tax Assistance Program (VITA) is probably the most useful program for small business clients and the one most likely to be available on the college campus or at least in your local community.

The VITA program is designed to offer low income taxpayers the kinds of assistance that most taxpayers can get in their local H&R

Block or small CPA office. The difference is, of course, that there is no fee. The IRS has arranged for these sites in community and neighborhood centers, schools, and shopping malls. There are over ten thousand VITA sites nation-wide. They are staffed by volunteers: accounting or business students, law students, professionals from local CPA or the Bar, retired professionals, etc. Many of the VITA sites are on college campuses and staffed by our students where they gain valuable experience working with clients, working under supervision and organizing work. On Millersville University's campus, the VITA site prepares over 500 tax returns each year, involves about 15 students and last year added up to 1200 hours of volunteer time, and some of the students also earn internship credits for the experience. Out of the total returns filed 18 included schedules C, C-Ez or E, making them candidates for the cooperation described in this paper.

The IRS offers a training program for the volunteers which is quite extensive and our students find it personally useful as well as preparing them to participate in the program. In addition to training at the Federal level, the State Tax authorities cooperate with VITA sites, and will on request send trainers to make the students competent to prepare state level returns as well. In the State of Pennsylvania, the training involved the personal and business tax issues, but also Rent Rebate and Tax Forgiveness forms for low income taxpayers. The experience at Millersville University is limited to the VITA program but the IRS has set up other programs to address the tax preparation needs of other taxpayers. The SBI Director should check with their local accounting department to determine what IRS programs are available on their campus or in the local community.

The Tax Counseling for the Elderly Program (TCE) might be of use to your SBI clients if they are over 60 years of age (the IRS definition of "elderly"). This program is more individualized and grant money is available to pay the expenses of the volunteer. Its format is more like the SCORE model, where one-on-one counseling was arranged for a limited time.

The Student Tax Clinic Program (STCP) offers counsel in audit, appeals and tax court cases. Students in law school, or graduate accounting and taxation students staff these programs. These programs are more specialized than the VITA sites and therefore there are fewer of them.

Low Income Taxpayer Clinics (LITC) is a grant program to provide legal assistance to low income taxpayers in controversy with the IRS and work with English as Second Language individuals on their taxpayer rights. The LITC programs are offered by accredited law and business schools.

Taxpayer Advocacy Service is a problem resolution service. This program is for crisis situations where significant suffering, impending action or significant costs are about to be incurred. These advocates are not a substitute for the normal appeals process, but can be very useful in understanding the process and getting answers about your status.

### **Business Tax Services**

Some of the IRS programs are expressly designed for business taxpayers. While the individual programs above, might be useful some sites may discriminate against business clients by not accepting any taxpayers who include a Schedule C, or E form. The IRS Business Tax Services would then be available to help.

### **The Small Business/Self-Employed Taxpayer**

Education and Communication (TEC) program is really an information source rather than personal assistance, but the information is extensive so they are listed here:

Publication 334, Tax Guide for Small Business (for individuals who use Schedule C or C-Ez)

Publication 454, Your Business Tax Kit, contains sample forms, and ways to get IRS tax help and additional forms.

Publication 583, Starting a Business and

#### **Keeping Records**

Publication 1518, Tax Calendar for Small Businesses, a twelve month calendar is filled with helpful hints, general tax information and a listing of the most common tax filing dates.

Publication 1853, Business Talk, a list of services for businesses.

Publication 3207, The Small Business Resource Guide CD2001, A one-stop resource for business, and includes business planning and arranging financing.

### **Suggestions for SBI and IRS Assistance and information**

- 1) The most extensive cooperation that is possible would be the merging of the SBI activity with one or more of the available taxpayer assistance programs that the students can offer on the college campus. VITA, TCE, STCP, or the LITC programs are all possible on campus if accounting or law faculty are available to supervise these activities. The projects might begin either as SBI or VITA and move to the other service because the client needs more assistance.

At Millersville University we are considering making a very direct link between the two activities and assigning student teams to work with taxpayers on establishing their accounting systems. This would include following them through one year of tax compliance, filing and reporting. This is made complex because the taxpayer needs assistance for one year, while our students and the SBI program is based on a semester project. This requires some additional coordination from one team to the next and places a burden on the SBI Director, but assistance is obtained from the VITA site faculty.

- 2) The most natural cooperation between these programs and the SBI is client referrals. If merging the two programs is too aggressive, then as a value added, the SBI report can suggest that the clients seek help from "another program we offer here at the university." If the tax assistance site faculty are aware of the services of the SBI then they can become a source of referrals. When preparing someone's tax return it quickly becomes obvious whether the person needs help in managing their business, and not just in financial or taxation issues,
- 3) As part of your normal management report for your SBI clients consider including (remember they are all free) some of the business materials mentioned above. Include them simply as value added, even if you don't discuss it, or the client had accounting or taxation issues. The Tax Kit, Calendar and the CD make particularly nice add-ons to your report. This is also a natural time to encourage the client to take advantage of your tax assistance site, if one exists.

**How to Contact the IRS**

- 1) Each of the following is available through one toll-free phone number: 800-829-1040:
- Volunteer Income Tax Assistance Program (VITA)
- Tax Counseling for the Elderly Program (TCE)
- The Student Tax Clinic Program (STCP)
- 2) The Low Income Taxpayer Clinic Program can also be reached at 800-829-1040, or you can ask for Publication 3319 if your school might be interested in offering this program.
- 3) The Taxpayer Advocacy Service can be reach at 1-877-777-4778 or ask for Publication 1546.

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# **MANAGEMENT ACCOUNTING STRATEGY IN SMALL BUSINESS: A SURVEY OF REVENUE MANAGEMENT PRACTICES AND THEIR EFFECTS ON SALES**

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Unlike revenue management in financial accounting, which refers to revenue recognition, revenue management in managerial accounting refers to a process of seeking to maximize a business's revenues rather than simply managing its costs. Many firms react to competition or economic downturns with cost cutting in order to improve profitability, reflecting the assumption that it is best to react as a price taker. In contrast, there is evidence that companies that focus on revenue growth in bear markets are more profitable (ROA and avoidance of loss) than companies that concentrate on cost reduction (Schreuder et al., 1991).

Defined as "selling the right product to the right customer at the right time for the right price." (Cross, 1997), revenue management has been practiced for many years in the airline and hospitality industries. Its use has spread to diverse industries such as banking, broadcasting, electric utilities, healthcare, and others. Operations management studies have modeled different aspects of revenue management (e.g., reservation policies, demand characteristics, and market structure, price, and inventory availability) (Harris and Pinder, 1995; Feng and Gallego, 2000; Nietessine and Shumsky 2001). However, little is known about revenue management as a management accounting strategy in small businesses. In the present study, we attempted to address this gap by testing several hypotheses about revenue management practices among a sample of small businesses.

Revenue management originated in firms with three characteristics: 1) perishable products; 2) high fixed costs in the form of

capacity costs; and 3) the ability to segment customers (Weatherford and Bodily, 1992). For example, airlines have a perishable product, (i.e., a given flight on a given date to a given destination flies only once), high fixed costs in their investment in fleets of planes and reservation systems that allow them to track and record data on the characteristics of their customers' shopping and buying profiles. Analysis of these data allow airlines to segment their customers (e.g., leisure travelers, business travelers). Airlines predict the demand for specific flights and adjust fares and seat availability to maximize revenues across customer segments. For example, they reserve seats for up to a few hours before a flight so that seats are available for business travelers who are traveling at the last minute and are willing to pay more for those seats than leisure travelers reserving seats several weeks earlier.

Nearly all businesses can practice and benefit from revenue management. The perishable nature of capacity makes its adoption feasible in even very small businesses. It can be supported by simple activities such as gathering and analyzing data about customers through direct or indirect observations (e.g., interacting with them in person, over the phone, by email). For example, gathering data from customers and recording their buying and shopping behaviors and profitability can be done by keeping a log or a spreadsheet, without the use of complex information systems or data mining and warehousing capabilities. The data then can be analyzed to see if different customers use products and services differently. This type of information and analysis supports revenue management practices such as developing specialized



services and products to target identified customer segments. Other simple revenue management practices can be adopted, such as discounting prices during slow periods (e.g., Wednesdays) and raising prices during busy times (e.g., Saturdays) to shift customer demand from busy periods to slow periods.

The literature suggests that the overall revenue management process consists of these four steps: 1) tracking and analyzing customers' demand for products and services (Cross, 1997; Graham, 1998); 2) segmenting customers by their differential demand (Gardner and Dolan, 1997; Green, 1997); 3) revenue management by pricing according to each segment's willingness to pay (Geraghty and Johnson, 1997; Marriott and Cross, 1997; Tomplin, 1999); 4) revenue management by limiting or targeting the supply of products and services by segment (Geraghty and Johnson, 1997; Marriott and Cross, 1997). Thus, we posed the following hypotheses:

**H1) The recording of data from and about customers will be positively and significantly associated with revenues.**

**H2) The segmentation of data from and about customers will be positively and significantly associated with revenues.**

**H3) The practice of revenue management by pricing and targeting will be positively and significantly associated with revenues.**

**Methods**

Data were collected by means of a semi-structured mail questionnaire sent to small businesses in a rural county in a mid-Atlantic state, using elements of the Tailored Design Method (Dillman, 2000) to attain a 46% response rate. Sample businesses were 36% service, 24% manufacturing, 23% retail, 5% construction, 1% wholesale, and 11% listed multiple business types. Forty-six percent of the respondents were male and 54% were female. Mean annual sales were \$1,214,447,

ranging from \$6,000 to \$9,300,000.

Questionnaire items (with response categories ranging from strongly agree to strongly disagree) were generated from the literature on revenue management. Scales were formed from survey items within categories by using confirmatory principal component factor analysis, using an oblimin rotation, and selecting Eigenvalues greater than one. This was followed by refinement and calculation of a satisfactory Cronbach's alpha. These results and items included in the scales are available from the author. Two scales measured the extent to which information is recorded: Recording Shopping Data and Recording Profitability Data. One scale measured Segmenting of the data. Recording and segmentation are believed to be necessary precursors to actions taken to manage revenues. Two scales measured revenue management. Revenue Management Targeting (RMT) addressed targeting and setting aside products/services for specific customer segments and Revenue Management Pricing (RMP) measured differential pricing strategies by segment. The dependent variable, Sales Revenue, was based on 2001 sales figures provided by respondents.

**Results and Discussion**

The hypotheses were tested using hierarchical regression analysis, which tested the entire model based on the temporal order in which activities occur (i.e., data must be collected before analyzed and acted upon). RMT and RMP were entered in separate steps to test the effects of the different approaches to revenue management. The initial model suggested that only Segmenting was significantly associated with Revenues, supporting H2. However, its significance implied that number of customers may be an important factor. Revenue management practices are based on segmentation so they should be more effective with larger numbers

of customers. We tested this assumption by performing ANOVA and Scheffe tests (results available from the author) and found that there were significant differences in levels of RMT based on the number of customers. Therefore, we again tested the full regression model but selected only those businesses with 100 or more customers ( $n=45$ ). Findings are presented in Table 1.

The overall regression model is significant ( $F=3.633$ ,  $p<.01$ ) with a total adjusted  $R^2$  of .262. The analysis showed that Recording Profitability and Shopping Data had no significant effect on Sales Revenue ( $F=.835$ ), supporting the rejection of H1, that the recording of data from and about customers will be positively and significantly associated with revenues. However, Segmenting ( $F=3.066$ ,  $p<.01$ ) was a significant antecedent of Sales Revenues, supporting the acceptance of H2, that segmentation of data from and about customers will be positively and significantly associated with revenues. The regression analysis showed that RMT ( $F=2.178$ ,  $p<.05$ ), targeting products and services to specific customer segments, was a significant predictor of Sales Revenues, supporting H3, that the practice of revenue management by pricing and targeting will be positively and significantly associated with revenues. However, RMP ( $F=.892$ ) did not add to the explanatory power of the regression model and was not a significant predictor of Sales Revenues. Therefore, the regression analysis provided only partial support for H3 since RMT and RMP had differential effects on revenues.

The findings of the present study have important implications. They demonstrate that revenue management is practiced in even small rural businesses but that its effects on sales are seen only when businesses have more than 100 customers. Thus, there may be economies of scale associated with revenue management practices. Our findings also demonstrate that the practice of targeting specific customer

segments had a greater effect on sales than differential pricing. Overall, the study provides evidence that small businesses can benefit by segmenting their customers and then targeting products and services to segments. Revenue management is an accounting strategy that small businesses should consider, whether seeking to grow revenues or reacting to an economic downturn. It can be implemented in a simple form that suits many of the constraints faced by small businesses (e.g., lack of marketing resources, low levels of resources for data gathering, preferences for relying on information within the business, and preferences for informal sources of marketing information) and the belief that they need to find a niche to compete with big businesses (Gold, 1964; Pineda et al., 1998; Smeltzer, Fann, and Nikolaisen, 1988; Weinrauch et al., 1991).

Table I

HIERARCHICAL REGRESSION ANALYSIS OF THE EFFECTS OF RECORDING, SEGMENTING, AND REVENUE MANAGEMENT PRACTICES ON SALES REVENUE

Variable	Regression Coefficient	Changes in R2	F for Variable	F for Equation	Total Adjusted R2
Step 1					
Recording Profit. Data	.137		.747		
Recording Shopping Data	.114	.046	.620	.835	-.009
Step 2					
Segmenting	.533	.207	3.066**	3.823	.186
Step 3					
RM Targeting	.319	.094	2.178*	4.369**	.267
Step 4					
RM Pricing	.163	.016	.892	3.633**	.262
Notes: * p < .05                      p < .01					

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**SMALL BUSINESS INNOVATIVE RESEARCH PROGRAM  
AN ALTERNATIVE FINANCING SOURCE**

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**Introduction**

In the best of economic times small entrepreneurial firms have difficulty finding adequate funding. Under the current economic environment this problem is exacerbated. The small business literature and the popular magazines frequently publish information about venture capital. However, rarely is there any information of the federal government program called "Small Business Innovative Research" (SBIR) The government funds early stage companies that no one else will touch. Or conversely, in light of today's economic times, what may have once been fundable companies, must now seek out alternative ways to fund their projects. That's right. Imagine, free money!

The purpose of this paper is to explain the details of SBIR Program, where to obtain information and how a small entrepreneurial firm could apply for a Small Business Innovative Research award. In addition, the paper will contain a case study of a small business that was successful in receiving both Phase I and Phase II awards. The authors believe that the paper will highlight an additional source of funding for small businesses that is not widely known or utilized.

The Small Business Innovative Research Program can be a source of funds for certain entrepreneurial firms. The SBIR Program set forth in the Small Business Innovative Development Act of 1982, revised in 1992 and again revised in 2000. Originally, the Act required that a federal agency having a budget in excess of \$100 million annually in external

research to set aside 1.2% of these funds for small business awards. Later, in 1992 the percentage was increased to 2.5%. Today, this amounts to approximately \$1.4 billion. The program is designed to stimulate technological innovation and having small business play a part in it. There are ten federal agencies that are participants in the SBIR Program (depending on final budgets for FY03 and FY04 Homeland Security is expected to be the eleventh agency). The ten government agencies are:

1. Department of Agriculture
2. Department of Commerce
3. Department of Defense
4. Department of Education
5. Department of Energy
6. Department of Health & Human Services
7. Department of Transportation
8. Environmental Protection Agency
9. National Aeronautics and Space
10. National Science Foundation

In FYOI over \$1.2 billion (increased to \$1.4 billion in FY02) was awarded through the SBIR program. In Phase I awards in FYOI California lead the way with 612 grants and over \$6 1,000,000 awarded. The remainder of the top 5 by awards (not dollars) includes Massachusetts (419), Virginia (184), Maryland (164) and Colorado (147). In total dollars awarded by state, the order is the same except that Maryland is ranked 5<sup>th</sup> and Colorado 4<sup>th</sup>. So what's the catch on this "free money"? Each year these ten agencies set forth a variety of

R&D topics ("solicitations") they would like to see addressed. A typical year will see a total of more than 1000 general and specific solicitations from the ten agencies. The guidelines for each solicitation are typically designed to encourage scientific and technical concepts that should yield results important to the federal agency, the private sector and the small business. Therefore, your project must fit within one of the solicitation guidelines or you may not be funded. Projects not addressing a specific or general solicitation are not funded.

Historically, less than 15% of all Phase I applicants and only 40% of Phase II applicants

are funded. A proposal can take months to prepare and in some cases be quite costly (market research) and since most agencies only post and review once a year there can be a significant lag between submission and award (or not). Each solicitation is unique in its requirements and you should therefore visit each agency's website to comply with their specific requirements. Selection of individual projects is based upon expert review and awarded on a competitive basis. Incidentally, failure to follow each agency's specific and unique criteria results in administrative rejection of the application. Timing for agency submissions is as follows:

<b>SBIR Agency</b>	<b>Release Date</b>	<b>Closing Date</b>
Agriculture	June	September
Commerce	October	January
Defense	May & October	July & January
Education	January	March
Energy	December	March
EPA	September	November
Health & Human Services	January	April, August & December
NASA	July	October
National Science Foundation	March & October	June & January
Transportation	February	May

A portion of the total dollar allocated is set aside for socially and economically disadvantaged small businesses. This also includes women owned small businesses. This number has consistently remained above 10% of all allocated dollars. In addition, if properly claimed, patent and proprietary rights remain with the small business with the government receiving a royalty free license to the technology for their own use.

### **Eligibility/Qualifications:**

The SBIR Program is designed to provide financial research assistance to small businesses. There are some criteria that must be met by the recipients of an SBIR award. The principle qualifications include; Phase 1:

1. Award to a for profit business.

2. Have no more than 500 employees. (Although nationally, more than 70% of awards go to companies with <10 employees).
3. Independently owned and operated with the principle place of business located in the United States.
4. The applicant must have 51% United States (or permanent resident alien) ownership with all work being performed in the U.S.
5. The principle investigator (researcher) must be principally employed by the business. This precludes full-time employment at another firm.
6. In Phase I at least 2/3 of the research/analysis must be performed by the applicant firm.

### **SBIR proposals include the following elements (25 page maximum length):**

- Cover sheet (1 page)
- Abstract or project summary (1 page)
- Significance of the problem (3 page)
- Research Objective (1 page)
- Research/Work Plan (6 pages)
- Key personnel (5 pages)
- Background and related research (2 page)
- Future R&D (1 page)
- Commercial Applications (2 page)
- References (1 page)
- Budget (1 page)

### **Evaluation Criteria**

In other words, how can you best position yourself to get the "free money"? The two most glaring issues the applicant will face, are what's so special about your proposal and will it work? This sounds very much like the same two major issues any funder might have in regard to investing in a project. Throw in the fact the team plays a key roll in the decision,

coincidentally, also a factor in the SBfR evaluation and it looks like any other funding project. So what the applicant must ultimately demonstrate is a novel idea, with a viable market for the project and a perceived reduction in risk.

### **Additional suggestions include:**

1. A demonstrated understanding of the current state of the art.
2. A thorough and detailed work plan
3. Defined technical and commercial importance of the technology
4. A qualified project team and facilities
5. Access to adequate equipment

### **The Role of Small Business**

#### **Administration (see also, Appendix 1):**

The SBIR Program is under the Director of the Small Business Administration. It provides guidelines to the 10 agencies that are involved in the Program. The SBA acts as somewhat of a clearinghouse by collecting solicitation information from the participating agencies and making it available through their Pre-Solicitations Announcement. Therefore, the SBA in effect acts as a contact for the SBIR Program.

SBA has a computerized system that assists entrepreneurs in bringing together SBIR participants and other sources of funding.

#### **Three-Phase Program:**

Although the major emphasis of the SBIR Program relates to the start-up phase there are actually three phases.

Phase I: This is typically referred to as the start-up or feasibility phase. Awards are provided to explore the feasibility of the development of ideas. The awards are typically

in the \$75,000 to \$100,000 for Phase I and completion time of approximately 6 months. For Phase I, only proposals in response to solicitations issued by the participating agency are considered. Phase I evaluation may include consideration of the extent to which there is a potential success in Phase II. Therefore, applicants in Phase I should consider if the research and feasibility study has potential in the private sector. Each year typically, 3200 Phase I applications are awarded.

Phase II: The recipients of the Phase I awards are usually notified of the guidelines for submitting a Phase II proposal. The exception is the Department of Defense where only Phase I award winners having successfully performed invited to submit Phase II proposals. Funding generally runs between \$200,000 and \$750,000 in this Phase. The award criteria for

Phase II include the following:

1. Phase I objectives were met.

**Preliminary Resources:**

1. Dipner, Randy and Mark Henry, Creating a Competitive Proposal, TECH BUSINESS JOURNAL, Sept. 16,2002.
2. Department of Defense, The Small Business Research (SBIR) Program.
3. National Science Foundation, Small Business Innovative Research (SBIR).
4. Lerner, Josh, "The Government as a Venture Capitalist: The Long-Run Impact of the SBIR Program." Journal of Business. 1999 Vol.72, No. 3, pp 285-2214.

2. The uniqueness of the proposal innovation.
3. The qualifications of the applicant and staff including the availability of any equipment and facilities required.
4. The soundness of the proposal to develop a prototype.
5. Reasonable budget.

The Phase II awardees must submit an annual report on the progress to commercialize the innovations to the private market place.

Current information demonstrates that 39% of Phase II funded projects are commercialized. Each year 1500 Phase 2 applications are awarded.

Phase III: This includes follow-ups on funding be to move the innovation to a commercial concept. This usually involves a commitment for funding from private sources. It is also anticipated that the sponsoring agency (in the case of the DoD or NASA) may become a consumer of the finished product.

5. Dipner, Randy and Mark Henry, SBIR Program Offers More Than \$1.2 Billion for Early-Stage Tech Research, Sept. 23,2002.
6. <http://www.sba.gov/sbir>
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# The Small Business Institute: An Economic Development Perspective

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## Abstract

*An integrative model for a SBI Program is presented emphasizing development of relationships with other organizations involved in business support activities and economic development. Such organizations can include Chambers of Commerce, County Planning & Development Departments, Small Business Development Centers, and others. Some of the benefits of this approach include: Increased level of institutional support; program funding opportunities; higher impact cases; proactivity with respect to emerging issues and businesses.*

## Introduction

The effectiveness of the Small Business Institute (SBI) as an educational vehicle and as a means of providing assistance to small businesses is well documented in terms of clients served and growth in jobs, revenues and compensation (Small Business Institute Economic Impact Study: 1990-93). Clients' satisfaction with the program is also very high: For example, 85% of the clients rated "student team knowledge and expertise" as excellent and above average; 90% rated "overall working relationship" as excellent or above average (Matthews, 1999). There are also benefits for students, supervising faculty, and the sponsoring University. Cook (1999) refers to this phenomenon as a "Win 4 Program."

## Literature Review

There is a fairly large and steady stream of literature that has been published that has evaluated the SBI Program. Several of these are referenced in Table I:

**Table I – SBI Literature Summary**

Ward, 1990	<i>A Measurement Model of the Economic Impact of Small Business Institutes</i>
Fontenot, Haerhues & Hoffman, 1991	<i>The Benefits of the SBI Program: Perceptions of Former Students</i>
Matthews, 1991	<i>Strategic Planning and the Family Firm: An SBI Consulting Perspective</i>
Jackson, Vozikis & Babakus, 1992	<i>SBI Intervention: An Old Problem-A New Perspective</i>
Young, & Joyce, 1992	<i>Small Business Consulting: A 10-Region Analysis of Small Business Institute Programs, 1990</i>
<i>Small Business Institute Economic Impact Study: 1990-93</i>	<i>Small Business Institute Economic Impact Study: 1990-93</i>
Jackson & Watts, 1995	<i>The SBI Program and Student Outcomes: A Study of Business Policy Classes</i>
Ames, 1998	<i>Transforming Consultants' Recommendations into Business Improvement: A Model and Action Agenda</i>
Matthews, 1998	<i>The Small Business Institute Program: High Impact Entrepreneurship Education</i>
Cook, Ronald G., 1999	<i>Why should you Join the Small Business Institute Directors' Association (SBIDA)</i>
Penley, 2001	<i>Challenges Ahead for Small Business Education</i>
Cook, 2000	<i>Quality Field Case Consulting: New Program Possibilities</i>
Wolverton & Cook, 2000	<i>Tapping the Benefits of the Living Case Methodology: A Case Study</i>
Doran, Scigliampaglia & Toole, 2001	<i>The Role of Field-Based Business Consulting Experiences in AACSB Business Education: An Exploratory Survey and Study</i>
Heriot & Campbell, Forthcoming	<i>Starting New Small Business Institute Programs: A Survey of New Programs Begun Since 1996</i>

## Economic Development Model of SBI

At its peak, the nation's SBI Program included about 475 colleges and universities. Today, the number of "official" programs is less than 125! What has happened? There are at least six significant factors contributing to this decline:

- The discontinuation of SBA funding
- Increased pressures to publish
- Widespread pressures to achieve AACSB accreditation
- Strained university budgets
- The extraordinary time demands of conducting a quality SBI program
- A decline in business school enrollment in many colleges and universities

All is not gloom and doom, however. There are a number of "unofficial" SBI programs in the country -these are instances where sans SBA funding, schools have continued to conduct field-based consulting independent of SBIDA/SBI. The other bright spot is the AACSB's movement in the past few years that recognizes the importance of field-based consulting in business programs (Penley, 2001; Doran, Martha, Sciglimpaglia, Don & Toole, Howard, 2001).

In spite of being impacted by the same factors as many other institutions have experienced, including a 30% drop in student enrollment and loss of SBA funding, our program has been able to expand our program in terms of:

- *Quality* of casework
- *Quantity* of casework (30 projects/year)
- *Quality of clients* (size, scope, etc.)
- Number of students (up to 85 per year)
- Budget (2-3X budget of "SBA Days")

Key to this success has not only been the dedication and efforts of a number of faculty and many students, but the implementation of an "economic development" framework for conducting our SBI Program. This has resulted in the SBI becoming the "largest" economic development entity in the region measured in terms of man-hours devoted to assisting in the

economy of the region. Figure I presents a graphical representation of the Center for Economic Operations (CEO) and the positioning of the SBI in this organization. The CEO is a "one-stop" shop comprised of all of the key economic development organizations in the region that is able to serve a very wide variety of needs of organizations of all sizes and types. The university components of this organization are quite extensive.

## The Management Services Group (MSG)

The role of the university is threefold - to *teach*, to engage in *research and other scholarly activities*, and to *serve the community*. The Management Services Group (MSG), the umbrella organization for the College of Business and Information Technology's (COBIT) outreach programs, exemplifies The University's commitment to its service mission. Established in 1991, the MSG has evolved into a multifaceted organization, including the Small Business Incubator, Small Business Institute (SBI), Center for Family Business, Government Contracting Assistance Program (GCAP), and Small Business Development Center (SBDC). The MSG was awarded the University's Outstanding Achievement in Public *Service Award* in 1997.

## Service Units of MSG

***The Small Business Incubator*** - The Small Business Incubator occupies 60,000 square feet on the campus. Besides providing space for start-up and expanding companies, the Incubator offers secretarial and general business services, computer training, and assistance with exporting, government contracting, accounting, management, and marketing. The Robertshaw Center was established in 1986 and has operated at near capacity with tenants employing between 130 and 150 people annually since 1988.

The Small Business Incubator provides:

- Start-up businesses with low-cost space.
- Centralized support service.
- Free consulting for business planning, government contracting, accounting, management, marketing, finance, etc..
- Computer training and seminars on business practices technologies.

**Small Business Development (SBDC)** provides over 3,000 hours of free consulting annually to established businesses and prospective entrepreneurs. The SBDC professional staff and faculty of the College of Business and Information Technology provide counseling in diverse functional areas. The SBDC's range of services includes the development of formal business plans, financial analysis, assistance with Small Business Administration-guaranteed loan applications, marketing studies, product development, and the resolution of general startup issues.

**Small Business Institute (SBI)** - was established in 1984, the purpose of the SBI is twofold: to share faculty expertise available with area businesses and to provide an outlet for students to apply their training as supervised consultants. The SBI assists both large and small companies as well as not-for-profit organizations by providing a wide range of business consulting services; some of these include the following: market research, accounting system development, human resource services, hardware/software installation and development, operations analysis, feasibility studies, and business planning. The consulting is provided free of charge to the client and involves College of Business and Information Technology undergraduate and graduate students who work under the close supervision of one or more experienced faculty members.

Each year, twenty to twenty-five in-depth projects are selected and matched with teams of

students and faculty members based on their interests and capabilities and the needs of the participating company. Each project typically involves 300 to 1,000 hours of combined student and faculty time.

**Government Contracting Assistance Program (GCAP)** - helps regional businesses identify and respond to federal and state requests for bids for products and services. At the GCAP, a government procurement specialist utilizes an on-line computer service to track potential contracts, notifies companies that request this information, and assists them with bidding procedures. Currently funded by the U.S. Department of Defense, GCAP serves dozens of clients each year. Contract sales generated through this program add significantly to the economic vitality of the local economy.

**Center for Family Business (CFB)** - was designed to serve the unique needs of family owned businesses. Issues such as succession, estate planning, conflict resolution, performance compensation, and valuation are addressed. The establishment of an effective corporate board, and management of sibling and cousin teams, are critically important issues that are often ignored by other educational forums.

**Other Relevant Activities** - include Students in Free Enterprise (SIFE), a major in Entrepreneurship and Small Business and a Self-Employment Assistance Program (SEAP) whereby unemployed individuals are put through a rigorous, extensive program that is intended to get them up and running in their own business. These programs are operated autonomously while being integrated with other university, MSG and CEO activities.

### **CEO Organizational Interactions**

This organizational structure is not simply on paper -at a minimum, there are monthly

meetings where all constituent groups meet to discuss any and all issues related to businesses, economic development, etc. In addition, there *is ongoing, often daily, interaction between and among the operating entities*. Figure 11 is a representation of the extent to which interactions are regular *and* significant. The nature of the interactions of the SBI include providing consulting services for not only businesses and not-for-profit organizations in the community, but providing support in term of consulting projects for other components of the CEO and MSG. Examples include developing a business plan for the Incubator, conducting market research for the County Commissioners/ County Agencies/ Planning Office and Chamber of Commerce.

**Criteria For Case Selection**

In conjunction with the myriad interactions that occur within the CEO as they relate to the Small Business Institute, there are three essential criteria that are employed in establishing a "short list" of potential clients that are "presented" to the students each term. The short list is typically comprised of 30 - 40 potential clients per year and might involve as many as 50 - 60 projects.

**Case Selection - "Short List" Criteria**

- "Good" case for *students* in terms of experience, "resume", potential job opportunities, etc.
- Impact on *economic development* (e.g., "Jobs" - short term and long term)
- A Priori *probability of success/ implementation of project* (must > 90%)

The positioning of the SBI in the CEO organization and the inherent interaction with the other groups has enabled the SBI to ensure that these criteria be met.

**Economic Development Approach Benerits**

There are a number of advantages that our SBI Program has realized since this evolution has taken place. Some of these include the following:

Institutional support and recognition for the SBI Program increased due to its integral nature of SBI with economic development agencies in the region

SBI is proactive in identifying opportunities and establishing relationships with new and emerging businesses

SBI has been able to increase funding to more than offset loss of SBA funding (from economic development agencies, clients, university, etc.)

"Better" clients have been identified and cases undertaken in terms of the scope, intensity and impact of projects

Interaction with other organizations, politicians, businesses, etc. in region increased due to being part of the CEO

Opportunity to undertake projects of wide public interest such as the parking study for borough, FAA mandated Benefit Cost Analysis for a \$20 million airport modernization project, County Recycling Center project, United Way project, Visiting Nursing Association (VNA) JACHO Accreditation project, Regional Medical Center market research & communications project, women's shelter business plan, etc..

**Summary**

It is recognized that not every SBI Director is in a position to restructure the economic development activities in their communities. It is more likely that an informal network could be established - for example, setting up an informal working relationship with the Chamber and other relevant entities. Even as a more limited and informal network, this

economic development approach to designing and operating a SBI Program may produce many benefits. It does come, however, with a number of costs. These include the time and effort required to develop such a network as well as to effectively work within it. In addition, the pressures to increase SBI consulting activities in terms of the number of clients seeking and receiving services and the nature and scope of some of the projects can be daunting. Since these "negatives" seem to be the kinds of things that many SBI Directors actually *embrace*, it seems like something that might be worth considering for many programs.

*(Figures I & II on following page)*

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Figure I - Indiana County Center for Economic Operations (CEO)

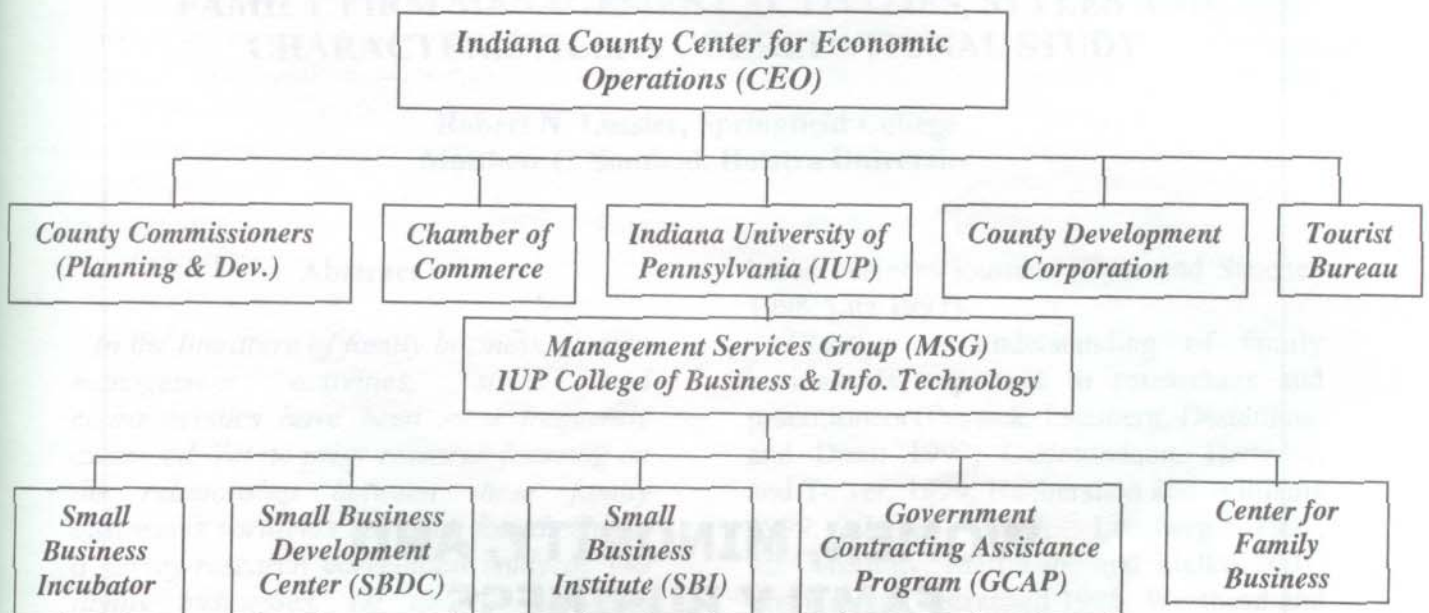
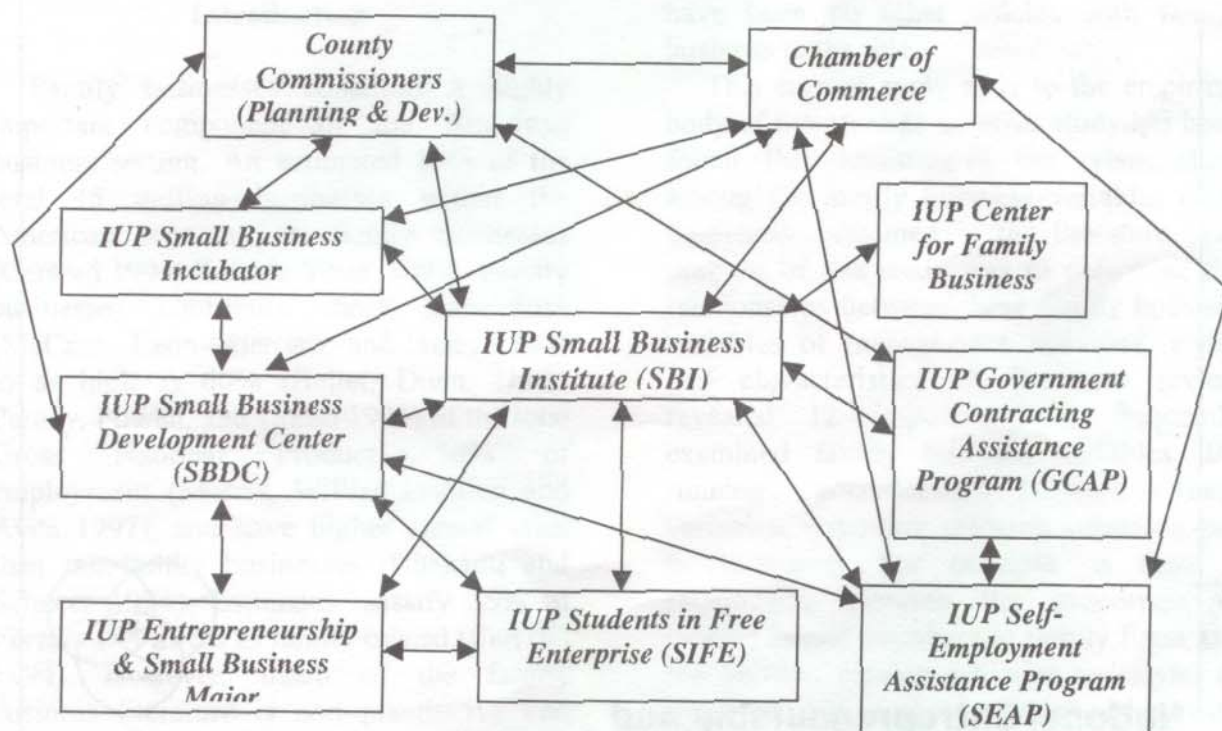


Figure II - IUP Small Business Institute (SBI)/Center for Economic Operations (CEO) Key Interactions



# FAMILY FIRM MANAGEMENT ACTIVITIES, STYLES AND CHARACTERISTICS: A CORRELATIONAL STUDY

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## Abstract

*In the literature of family business, certain management activities, styles and characteristics have been most frequently examined Yet no prior research focusing on the relationship between these family businesses variables has been found. This is a survey-research correlation study of 149 family businesses. Of the 12 variables studied, 20 (or 30%) of the 66 correlations were found to be significant. Table I reports the strength and direction of the 20 linear relationships between the variables with their p-values. The correlations and their implications are discussed.*

## Introduction

Family businesses constitute a highly important component of the American business setting. An estimated 80% of the total 15 million businesses within the American economy are family businesses (Carsrud 1994-1 Kets de Vries, 1993). Family businesses contribute more than 50% (McCann, Leon-Guerrero, and Haley 1997) to as high as 60% (Bellet, Dunn, Heck, Parady, Powell, and Upton 1995) of the total Gross National Product, 50% of employment (Morris, Williams, Allen and Avila 1997), and have higher annual sales than non-family businesses (Chaganti and Schneer 1994). Estimates classify 35% of *Fortune 500* firms as family owned (Carsrud 1994). However, much of the family business literature is non-quantitative and few articles have been published in broad-

based business journals (Dyer and Sanchez 1998; Litz 1997).

Clearly, an understanding of family business is important to researchers and practitioners (Gersick, Lansberg, Desjardins, and Dunn 1999; Gudmundson, Hartman, and Tower, 1999; Habbershon and Williams 1999; James 1999; Lansberg 1999; Matthews, and Fialko 2001; Shanker and Astrachan 1996; Westhead and Cowling 1998). The *Journal of Small Business Management* includes family enterprises in its topics of interest, and it included a special issue on *Family Business* in January (Vol. 39 No. 1) 2001, including six articles. However, from its January 2000 to July 2002 publications-1 I issues, there have been no other articles with family business in the title.

This current study adds to the empirical body of literature as no other study has been found that investigates the relationships among the family business variables most frequently examined in the literature. The purpose of this study was to determine the relationships between these family business variables of management activities, styles and characteristics. A literature review revealed 12 important and frequently examined family business variables. By running correlations between these variables, important research questions can be answered. For example, is there a relationship between the proportion of women family members in family firms and the decision-making activities and styles of the firm? Or is there a relationship with regard to the presence of non-family members among the management team? The

implications are important to: (1) practitioner family members, owners, and non-family managers, (2) researchers of family business, and (3) those who assist family firms. A better understanding of the relationship between the variables can lead to more effective operations of family enterprises, or a determination that these variables should be studied interdependently. This study contributes to an understanding of the relationship between family business

### **Family Business Variables**

Most of the family business literature is found in the journal *Family Business Review*, as it is the only scholarly publication specifically devoted to family business. Dyer and Sanchez (1998) analyzed all the articles published in the first decade of the *Family Business Review*, finding the most frequent topics of articles to be: Interpersonal family dynamics, Succession, Interpersonal business dynamics, Business performance and growth, Consulting to family firms, Gender and ethnicity issues, Legal and fiscal issues, and Estate issues.

Within the literature on family business, certain topics have been more frequently investigated. Based on an extensive review of this literature, the following 12 variables were included in this study to determine the relationships between them.

#### **1. Non-Family Members Within Top Management**

Dyer (1988) studied "paternalistic" management culture and style as compared to "professional" style of management. "Paternalistic" management was characterized by hierarchical relationships, top management control of power and authority, close supervision, and distrust of outsiders. "Professional" management involves the inclusion, and sometimes the

pre-dominance, of non-family managers in the firm.

McConaughy and Phillips (1999) studied large publicly owned founding-family-controlled companies and concluded that (a) descendent-controlled firms were more professionally run than were founder-controlled firms; (b) first-generation family managers are entrepreneurs with the special technical or business backgrounds necessary for the creation of the business, but the descendants of the founder face different challenges, to maintain and enhance the business, and these tasks may be better performed in a more professional manner, often by non-family members. Both Dyer (1988) and McConaughy and Phillips (1999) found an earlier basis in Schein (1983), who also suggested more professional forms of management with the inclusion of non-family managers. Thus, non-family members within top management is included as a family business variable for this study.

#### **2. Women Family Members Working In The Firm**

Nelton (1998) studied gender issues in family firms and stated that daughters and wives are rising to leadership positions in family firms more frequently than in the past, and that the occurrence of daughters taking over businesses in traditionally male-dominated industries is increasing rapidly. Cole (1997) found the number of women in family businesses increasing. More generally, U.S. Census Bureau data showed women-owned firms growing more rapidly than those owned by men (Office of Advocacy, 2001). Thus, women family members working in the firm is included as a family business variable for this study.

#### **3. Decision-Making Authority**

Another aspect of family business behavior is the distribution of decision-making authority in the firm. Dyer (1988)



found decision-making to be more centralized in first-generation family firms than in subsequent-generation family firms. Aronoff (1998) developed this suggestion further to determine the level of decision-making authority and the use of team management versus autocratic decision-making. Team management involves parents, children and siblings in the firm all having equality and participative involvement in important decision-making, even if one family member is still the nominal leader of the business. Aronoff furthermore reported that 42% of family businesses are considering co-presidents for the next generation. Thus, decision-making authority is included as a family business variable for this study.

#### ***4. Conflict and Disagreement About Management Decisions***

Interpersonal dynamics, including conflict and disagreement among family members, has been a major focus of family firm research (Levinson 1971 Sonfield and Lussier 2002). Morris et al. (1997) found that the relationship within the family has the single greatest impact on successful transition between generations of family businesses. Other researchers also studied conflict (Beckhard and Dyer 1983, Davis and Harveston 1999, 2001). Thus, conflict and disagreement about management decisions is included as a family business variable for this study.

#### ***5. Succession Planning***

Succession planning is a major focus of the literature on family firms (Sonfield and Lussier 2002). The primary issues here involve the difficulties founders have in "letting go" and passing on the reins of control and authority, the lack of preparation for leadership which next-generation family members often receive, and thus the need for, and importance of, succession planning

(Christensen 1953; Davis 1983; Handler 1994; Hershon 1975; Upton and Heck 1997). Dyer (1998) investigated "culture and continuity" in family firms, and the need for firm founders to understand the effects of a firm's culture and that culture can either constrain or facilitate successful family succession. Fiegner and Prince (1994) compared successor planning and development in family and non-family firms and found that family firms favor more personal relationship-oriented forms of successor development, while non-family firms utilize more formal and task-oriented methods. Building upon these and other studies of succession in family firms, Stavrou (1998) developed a conceptual model to explain how next-generation family members are chosen for successor management positions. This model involves four factors which define the context for succession: family, business, personal and market. Thus, succession planning is included as a family business variable for this study.

#### ***6. Founder Influence***

Another issue of interest in the investigation of family business is

"generational shadow" (Davis and Harveston 1999). In a multi-generation family firm a generational shadow, shed by the founder, may be cast over the organization and the critical processes within it. In such a situation, "succession" is considered incomplete, may constrain successors, and may have dysfunctional effects on the performance of the firm. Yet this "shadow" may also have positive impact, by providing a clear set of direction and standards for subsequent firm managers. Kelly, Athanassiou, and Crittenden (2000) similarly proposed that a family firm founder's "legacy centrality" will influence the strategic behavior of succeeding generations' family member managers, with

both positive and negative impact. Davis and Harveston (1999) also investigated generational shadow, but reached mixed conclusions regarding its impacts. Thus, founder influence is included as a family business variable for this study.

### **7. Going Public**

Family businesses are not always privately owned. As firms grow, opportunities and needs for "going public" may arise. The family may not be able, or may not choose, to provide sufficient management or financial resources for growth, and outsider ownership can resolve this situation. And even publicly owned companies can continue as "family businesses," if management or financial control is maintained by the family (Sonfield and Lussier 2002). McConaughy (1994) found that 20% of the *Business Week 1000* firms are family-controlled. Thus, going public is included as a family business variable for this study.

### **8. Use Of Outside Consultants, Advisors And Professional Services**

### **9. Strategic Planning**

### **10. Sophisticated Financial Management**

### **11. Professional Management**

As stated, several researchers of family firms have studied differences in paternalistic versus professional management. As family firms age, they also progress from informal, subjective and paternalistic styles of leadership to more formal, objective and professional (Aronoff 1998; Cole and Wolken 1995; Coleman and Carsky 1999; Dyer 1988; Filbeck and Lee 2000; McConaughy and Phillips 1999; Miller, McLeod, and Oh 2001 -Schein 1983). "Professional" management may involve the following: (a) the use of outside consultants, advisors and professional services (Sonfield and Lussier 2002), (b) more time engaged in strategic management

activities (Sharma, Chrisman. and Chua 1997), and (c) the use of more sophisticated financial management tools (Sonfield and Lussier 2002). Thus, consultants, strategic planning, financial management and professional management are included as family business variables for this study.

### **12 Capital Structure**

The capital structure decision is important for family business (Romano, Tanewski, and Smyrnios 2001). The debt to equity ratio has been studied by several researchers (Sonfield and Lussier 2002). Cole and Wolken (1995) and Coleman and Carsky (1999) found that older and larger family firms use more equity financing and less debt financing than younger and smaller family firms. However, Bork, Jaffe, Jane, Dashew, and Heisler (1996) and Gersick, Davis, Hamptom, and Lansberg (1997) found that family businesses are reluctant to use debt financing. Thus, capital structure (debt to equity) is included as a family business variable for this study.

## **Methods**

### **Sample**

Survey instruments were mailed, hand-delivered, and telephone-conducted to a variety of New York and Massachusetts companies identified as family businesses. Of the 822 surveys mailed; 272 were no longer at the address or responded that they were not family firms. Thus, 149 usable returned surveys provided a return rate of 27%.

### **Variable Measures**

As discussed, all variables are taken from the literature. A panel of experts reviewed the questionnaire for improvements, addressing reliability and validity. The 12 variables by measurement level are as follows:

(1) Non-Family Members Within Top Management and (2) Women Family Members Working In The Firm were ratio measures. The percentage ratio of family to non-family managers and the percentage of male and female family members involved in the operation of the firm were determined.

(3) Decision-Making Authority, (4) Conflict and Disagreement about Management Decisions, (5) Succession Planning, (6) Founder Influence, (7) Going Public, (8) Use of Outside Consultants, Advisors and Professional Services, (9) Strategic Planning, (10) Financial Management, and (11) Professional Management Style included descriptive statements on a Likert interval scales of "Describes our firm" 7 to 1 "Does not describe our firm."

(12) Capital Structure was measured as the use of debt or equity financing. Descriptive statistical data included the number of years the firm was in business, the number of employees, type of industry (product or service), and form of ownership.

## Analysis

The Pearson correlation coefficient was used to measure the strength and direction of the linear relationships between all 12 variables. Thus, 66 correlations were run.

## Results

### *Descriptive Statistics*

The mean number of years the sample family businesses were in business was 42, with a s.d. of 33, and a median of 35. The mean number of employees was 205, with a s.d. of 682 due to outliers, with a median of 26. As may be expected, the longer the firm is in business, the larger it becomes. As in the population, more businesses were in the service sector (including retail) 111/75%, with 38/25% offering products. The dominant form of firm ownership was

corporation 117/79%, followed by sole proprietorship 17/11%, and partnership 15/10%.

*Correlations* See the Table I for the correlation results. Of the 66 correlations, 20 or 30% are significant at the .05 level:

(1) *Non-Family Members within Top Management* is negatively correlated with (2) *Women Family Members Working in the Firm* ( $p = .017$ ), and positively correlated with (10) *Sophisticated Financial Management* ( $p = .000$ ), and (11) *Professional Management Style* ( $p = .000$ ).

(3) *Decision-Making Authority* is positively correlated with (4) *Conflict and Disagreement about Management Decisions* ( $p = .023$ ), (5) *Succession Planning* ( $p = .000$ ), (8) *Use of Outside Consultants, Advisors and Professional Services* ( $p = .050$ ), and (9) *Strategic Planning* ( $p = .006$ ).

(4) *Conflict and Disagreement about Management Decisions* is negatively correlated with (6) *Founder Influence* ( $p = .039$ ).

(5) *Succession Planning* is positively correlated with (7) *Going Public* ( $p = .004$ ), (8) *Use of Outside Consultants, Advisors and Professional Services* ( $p = .050$ ), (9) *Strategic Planning* ( $p = .000$ ), and (10) *Sophisticated Financial Management* ( $p = .003$ ). (5) *Succession Planning* is negatively correlated with (12) *Capital Structure* ( $p = .000$ ). However, *capital structure* is a nominal measure (debt or equity) making the Pearson correlation a weak test in which the direction of the relationship cannot be determined. A stronger test is the t-test comparing the use of succession plans by use of debt or equity. The t-test results were not significantly different ( $p = .428$ ). Thus, there is no significant relationship between *succession planning* and *capital structure*.

(7) *Going Public* is positively correlated with (9) *Strategic Planning* ( $p = .024$ ),

(8) *Use Of Outside Consultants, Advisors And Professional Services* is positively correlated with (9) *Strategic Planning* ( $p = .002$ ), (10) *Sophisticated Financial Management* ( $p = .003$ ), and (11) *Professional Management Style* ( $p = .021$ ).

(9) *Strategic Planning* is positively correlated with (10) *Sophisticated Financial Management* ( $p = .000$ ), and (11) *Professional Management Style* ( $p = .020$ ).

(10) *Sophisticated Financial Management* is positively correlated with (11) *Professional Management Style* ( $p = .000$ ).

## Discussion

As the percentage of (1) *Non-Family Members within Top Management* increases, the percentage of (2) *Women Family Members Working in the Firm* decreases, or as the number of women increase non-family member managers decrease. This finding supports the conclusion that as women family members enter the business there is less need for non-family managers. This relationship supports the Cole (1997) finding that the number of women in family businesses is increasing and the Nelton (1998) conclusion that daughters and wives are rising to leadership positions in family businesses. As the percentage of (1) *Non-Family Members within Top Management* increases, so does the use of (10) *Sophisticated Financial Management*, and a more (11) *Professional Management Style*. Thus, hiring experienced non-family managers can enhance the management team's activities and styles. This finding is supported by several researchers. However, as related to professional management in a broader sense, (1) *Non-Family Members within Top Management* and the (8) *Use of Outside Consultants, Advisors and Professional Services* and (9) *Strategic Planning* were not correlated, or non-family

managers do not make greater use of outside help and spend more time in strategic planning. Thus, these findings only partially support the notion that "professional" management (in the form of non-family managers) involves these various management practices (Aronoff, 1998; Cole and Wolken, 1995; Coleman and Carsky, 1999; Dyer, 1988; Filbeck and Lee, 2000; McConoughy and Phillips, 1999; Miller et al., 2001; Schein, 1983). The findings of all of these writers would support a positive relationship between (1) *Non-Family Managers within Top Management* and (8), (9), (10) and (11).

On the other hand, it is interesting to note that the four variables related to broad "professional" management were all related: (8) *Use of Outside Consultants, Advisors and Professional Services*, (9) *Strategic Planning*, (10) *Sophisticated Financial Management*, and (11) *Professional Management Style* all increased in use together supporting the above literature. With these four management variables, the use of (9) *Strategic Planning* increases with the use of (10) *Sophisticated Financial Management* and (11) *Professional Management Style*, and (10) *Sophisticated Financial Management* increases with (11) *Professional Management Style*. Clearly "professional" management encompasses a variety of correlated management styles, activities and characteristics.

The use of shared (3) *Decision-Making Authority* increases (4) *Conflict and Disagreement About Management Decisions*, (5) *Succession Planning*, (8) *Use Of Outside Consultants, Advisors and Professional Services*, and (9) *Strategic Planning*. When (3) *Decision-Making Authority* is shared, it is logical to have more (4) *Conflict and Disagreement about Management Decisions*, which supports the findings of Aronoff (1998), Dyer, (1988), Beckhard and Dyer (1983), and Davis and

Harveston (1991, 2001). However, as (4) *Conflict and Disagreement about Management Decisions* increases, (6) *Founder Influence* decreases. This makes sense, as a strong founder will influence the other family members, which reduces conflict. This finding supports Davis and Harveston (1999) and Kelly et al. (2000).

The use of (5) *Succession Planning* increases with (7) *Going Public*, (8) *Use Of Outside Consultants, Advisors and Professional Services*, (9) *Strategic Planning*, and (10) *Sophisticated Financial Management*. Again, these advanced management variables are positively related, further supporting the above results, and furthermore supporting the inclusion of *Succession Planning* as an example of "professional" management. Also, as the use of (9) *Strategic Planning* increases so does the planning with regard to (7) *Going Public*. This is logical as going public might be a part of a family firm's strategic plan. This supports the findings of McConaughy (1994) and Sonfield and Lussier (2002).

These findings are important because prior family business researchers have studied variables independently. Both those who research and those who assist family firms need to understand the relationships between these major family business variables. For researchers, these findings can identify focuses for future research, especially where prior studies' findings are only partially supported, or are not supported at all. For consultants, and others who assist family businesses, these findings can provide a better understanding of the relationships between various management activities, styles and practices within such firms, and therefore lead to more effective intervention and assistance.

The lack of a strong empirical based research literature is a limitation to this study, while at the same time the results contribute to the gap in the literature. As

previously discussed, much of the literature is not empirical. Thus, the variables selected for this study were based on limited research studies and conclusions. Clearly, these current findings indicate a need for more focused and more extensive analysis of many of these relationships between family business variables. As the understanding of these family business variables increases, going beyond the use of bivariate correlations to using multivariate analysis to examine the interrelation of the variables is suggested for further research.

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TABLE 1 Pearson Correlations (N = 149)

	2	3	4	5	6	7	8	9	10	11	12
1											
r	<b>-.195</b>	-.072	-.106	.020	-.042	.112	.088	.131	<b>.314</b>	<b>.317</b>	-.119
p	<b>.017</b>	.381	.198	.806	.609	.173	.284	.112	<b>.000</b>	<b>.000</b>	.149
2											
		-.015	-.019	.000	-.018	.037	-.040	-.002	-.015	-.038	.120
		.860	.820	.995	.826	.653	.630	.790	.857	.649	.145
3											
			<b>.186</b>	<b>.280</b>	.143	.033	<b>.161</b>	<b>.226</b>	.136	.052	-.053
			<b>.023</b>	<b>.001</b>	.083	.689	<b>.050</b>	<b>.006</b>	.098	.532	.520
4											
				.038	<b>-.169</b>	-.063	-.018	.102	-.119	.042	.027
				.643	<b>.039</b>	.448	.825	.217	.149	.614	.742
5											
					.152	<b>.165</b>	<b>.161</b>	<b>.389</b>	<b>.239</b>	.130	<b>-.343</b>
					.064	<b>.044</b>	<b>.050</b>	<b>.000</b>	<b>.003</b>	.113	<b>.000</b>
6											
						.031	.096	.016	.112	.115	-.031
						.703	.243	.845	.175	.161	.711
7											
							.122	<b>.185</b>	.129	.130	-.070
							.139	<b>.024</b>	.118	.113	.399
8											
								.255	<b>.239</b>	<b>.189</b>	-.012
								<b>.002</b>	<b>.003</b>	<b>.021</b>	.882
9											
									<b>.335</b>	<b>.191</b>	-.060
									<b>.000</b>	<b>.020</b>	.468
10											
										<b>.436</b>	-.099
										<b>.000</b>	.229
11											
											-.063
											.443

(1) Non-Family Members Within Top Management

(2) Women Family Members Working In The Firm

(3) Decision-Making Authority

(4) Conflict and Disagreement About Management Decisions

(5) Succession Planning

(6) Founder Influence

(7) Go Public

(8) Use Of Outside Consultants, Advisors And Professional Services

(9) Strategic Planning

(10) Financial Management

(11) Professional Management Style

(12) Capital Structure

r = Pearson r correlation coefficient

p = p-value, **Bold** indicates significant correlation of = or < .05

# **FAMILY FIRM OWNERSHIP AND MANAGEMENT: A GENDER COMPARISON**

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## **Abstract**

While family firms account for an estimated 80% of all American businesses, and about one-third of these family firms are owned by women, there has been minimal study of gender issues in family firm ownership and management. In contrast to early (pre-1980) gender comparisons in management and entrepreneurship, this study found few significant differences in a variety of management activities and styles between family firms with at least half the owner-managers being women and those with less than half. These findings add to the limited and currently inconclusive body of knowledge regarding gender issues in family business, entrepreneurship, and management in general.

## **Introduction**

This study compares family businesses which have a significant proportion of women family members involved in the management of the firm ( $n = 58$ ) and family businesses which do not ( $n = 91$ ). This comparison focused upon a variety of management activities and styles which have been previously identified in the research literature as being especially relevant in family business management. Such a comparison adds to the currently limited body of literature dealing with gender issues in family business, and can lead to the development of theory and models that can strengthen our understanding of, and assistance to, various categories of family businesses. The research literature upon which this study is based falls into several categories: family business, gender

differences in management, women in entrepreneurship, and women in family business.

## ***Family Business***

Within the U.S. economy, family businesses comprise an estimated 80% of the total 15 million businesses (Carsrud, 1994; Kets de Vries, 1993). They contribute more than 50% of the total Gross National Product (McCann Leon-Guerrero & Haley, 1997), 50% of employment (Morris Williams, Allen, & Avila, 1997), and have higher annual sales than non-family business (Ghaganti & Schneer, 1994). Furthermore, it is estimated that 35% of Fortune 500 firms are finally owned (Carsrud, 1994). Certainly an understanding of the various issues and aspects of family business should be of interest to scholars in the field of entrepreneurship. Yet most of the family business literature is conceptual or involves non-quantitative research and furthermore, relatively few articles in this field have been published in broad-based entrepreneurship journals (Dyer & Sanchez, 1998; Litz, 1997). Family Business as a field of study has grown from modest beginnings to a substantial conceptual and theoretical body of knowledge at the start of the twenty-first century. Prior to 1975, a few theorists, such as Christensen (1953), Donnelley (1964) and Levinson (1971), investigated family firms, yet the field was largely neglected (Lansberg, Perrow & Rogolsky, 1988). These early studies were generally conceptual rather than empirical, with a focus on the more fundamental issues, such as

what makes a business a "family business" or a "family firm" (the terms are used interchangeably), the dynamics of succession, intra-family conflict, and consulting to such firms (Handier, 1989; Sharma, Chrisman & Chua, 1997). In 1988, with the launching of the journal *Family Business Review*, the first and only scholarly publication devoted specifically to family business, the field reached a level of maturity to foster a significant progression and resulting body of research and findings.

### ***Gender Differences in Management***

Comparisons of management style by gender have been investigated for at least two decades (Carter, Williams & Reynolds, 1997; Chaganti & Parasuraman, 1996; Powell & Ansic, 1997). This body of research has expanded in response to the growing proportion of women in the managerial, entrepreneurial and small business workforce, their rate of firm creation, and their proportion of small business ownership (Moore & Buttner, 1997). Still, relative to the study of male-owned small businesses and entrepreneurship, this body of existing research is small and inconclusive (Chaganti & Parasuraman, 1996; Sonfield, Lussier, Corman & McKinney, 2001).

### ***Women in Entrepreneurship***

Most research conducted prior to 1980 concluded that gender differences clearly exist in entrepreneurial strategic behavior (Powell & Ansic, 1997; Sonfield, Lussier, Corman & McKinney, 2001). 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 provide mixed conclusions but tend to support gender similarities more than differences (Carsrud, Gaglio & Olm, 1986; Chaganti & Parasuraman, 1996; Powell & Ansic, 1997; Watson, 2002). Some studies conclude that

there are no significant gender differences in management decision-making values or 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 (Hyde, 1990; Stinerock, Stem & Solomon, 1991). Some of the most current research has moved beyond issues of management behavior and performance, and examines women entrepreneurs in light of various theoretical perspectives (Bird & Brush, 2002).

### ***Women in Family Business***

It is estimated that women now own more than 33% of all North American family firms (Astrachan, 2002). Yet there have been few research studies specifically focusing on women in family business, and those studies which were conducted were more often conceptual rather than empirical (Bowman-Upton & Heck, 1996; Hisrich & Fulop 1997). Most of these studies investigated issues of women's roles in family firms, family relationships, the "glass ceiling" and other aspects of gender bias, and succession planning (Cole, 1997; Harveston, Davis & Lyden, 1997; Galiano & Vinturella, 1995; Gundry & Welsch, 1994; Nelton, 1998; Rowe & Hong, 2000).

With regard to differences between men and women in family firms, the few conclusions that have been reached tend to be generalizations. For example, women have been found to be more dependent and have a greater concern for others, while men have been characterized as more independent. Thus women have been described as "peacemakers," "mediators" and

"nurturers" in their roles as family business owners and managers (Cole, 1997).

With further research, a clearer understanding of the role of gender in family businesses can be reached. Such an understanding would allow consultants and others who assist family firms to differentiate, if and when appropriate, between those clients which do and do not have a significant number of women owner-managers. And at a broader level, such an understanding might contribute to an eventual "model" of women's entrepreneurship beyond more general models (Carter, Williams & Reynolds, 1997; Fisher, Reuber & Dyke, 1993; Hisrich, Brush, Good & DeSouza, 1997), and also lead to more effective social policy goals and practices in the fostering and support of women-owned businesses in general. Because women have been starting businesses at a rate more than double that of men in the past decade (Brush, 1992; Dollinger, 1999), this research is especially important.

### **Research Objectives and Hypotheses**

As previously discussed, there have been few prior research studies comparing family firms with and without significant women's participation in ownership/management. Gender-related family firm research that has been conducted has generally studied the roles of women in family businesses, but has not made this type of analysis. The objective of this research study was to make this comparison, focusing specifically on a variety of management activities and styles which have been previously identified in the research literature as being especially relevant in family business management.

Based on the limited prior research regarding gender in family businesses, and on the broader literature regarding gender differences in management and entrepreneurship, the following hypotheses were developed. Because this total body of literature is relatively limited

and the conclusions reached are inconclusive, the null hypothesis was used throughout.

### ***Group Decision-Making***

A number of researchers have studied leadership style in family firms (Dyer, 1988; McConoughy & Phillips, 1999; Schein, 1983). With regard to gender, some studies have found no significant gender differences in management values or styles (Chaganti, 1986; Powell, 1990); while others have found men and women family firm owner-managers equally effective in roles of leadership (Eagly, Karau & Makhajani, 1995; Hollander, 1992).

Other studies have found that women rely more on social and other networks and less on individual systematic practices in their decisionmaking (Brush, 1992; Cuba, DeCenzo & Anish, 1983; Hisrich & Brush, 1987; Moore & Buttner, 1997); and that women have a lower preference for risk (Hudgens & Fatkin, 1985; Johnson & Powell, 1994; Levin, Snyder & Chapman, 1988; Sexton & Bowman-Upton, 1990).

Studies also indicate that women exhibit a "transformational" leadership style, ie. One which is more collaborative, interactive and utilizes team-work (Bass, 1991; Moore & Buttner, 1997); and that women are more participative and democratic in their leadership style (Eagley & Johnson, 1990; Grant, 1988; Helgeson, 1990; Loden, 1985; Rosener, 1990).

Still other research has found that women have more highly developed interpersonal skills (Benner, Tomkiewicz & Schein, 1998); and that "relational theory" is the best basis for examining women entrepreneurs (Bittner, 2001). Thus:

H1: Family business which have a significant proportion of women family members involved in the management of the family business which do not are equally likely to engage in group decision-making.

### ***Family Member Conflict***

Much has been written about conflict in family businesses (Beckhard & Dyer, 1983; Davis & Harveston, 1999, 2001). Many of the findings discussed above with regard to Hypothesis I involving women's "relational" preferences might also indicate that there would be less conflict in women -controlled family firms (Bass, 1991; Benner, Tomkiewicz & Schein, 1989; Brush, 1992; Cuba, DeCenzo & Anish, 1983; Buttner, 2001; Eagley & Johnson, 1990; Frank, 1988; Grant, 1988; Heilman, Block, Martell & Simon, 1989; Helgeson, 1990; Hisrich & Brush, 1987; Loden, 1985; Moore & Buttner, 1997; Rosener, 1990). Thus:

H2: Family businesses which have a significant proportion of women family members involved in the management of the firm and family businesses which do not are equally likely to have conflict and disagreement between family member managers

### ***Succession Plans***

Another major focus of the literature on family firms has been succession. The primary issues here involve the difficulties founders have in "letting go" and passing the reins of control and authority; and thus the need for, and importance of, succession planning (Davis, 1983; Dyer, 1998; Handler, 1994; Stavrou, 1998; Upton & Heck, 1997).

Nothing in the literature specifically investigates gender issues with regard to succession (Astrachan, 2002), but perhaps women's preference for collaborative and interactive management might lead to smoother succession planning. Thus:

H3 Family businesses which have a significant proportion of women family members involved in the management of the firm and family businesses which do not are equally likely to have formulated specific succession plans.

### ***Use of Outside Advisors***

Family business' use of outside advisors (consultants and professional services) has also been a focus of the literature (Aronoff, 1998; Cole & Wolken, 1995; Coleman & Carsky, 1999; Dyer, 1988; Filbeck & Lee, 2000; McConaughy & Phillips, 1999; Miller, McLeod & Oh, 2001; Schein, 1983).

As discussed above, gender-related research has indicated that women prefer to utilize social and other networks rather than individual systematic practices in their decision-making (Brush, 1992; Cuba, DeCenzo & Anish, 1983; Hisrich & Brush, 1987; Moore & Buttner, 1997). Also, research indicates that women are less confident in their ability to make decisions (Estes & Hosseini, 1988; Masters, 1989; Stinerock, Stem & Solomon, 1991; Zinkhan & Karande, 1991); and that women tend to build support networks and access resources (Moore & Buttner, 1997). These finding might support a prediction that women family firm managers are more likely to use outside advisors. Thus:

H4: Family businesses which have a significant proportion of women family members involved in the management of the firm and family businesses which do not are equally likely to use outside consultants, advisors, and professional services.

### ***Long-Term Planning***

The importance of long-term, or "strategic," planning for businesses in general, and specifically for family businesses, has been emphasized frequently in the literature (Aronoff, 1998; Cole & Wolken, 1995; Coleman & Carsky, 1999; Dyer, 1988; Filbeck & Lee, 2000; McConaughy & Phillips, 1999; Miller, McLeod & Oh, 2001; Schein, 1983).

With regard to gender, women have been found to be equally successful in making decisions under conditions of risk (Hudgens & Fatkin, 1985; Johnson & Powell, 1994); and equally capable of processing and reacting to

information (Hyde, 1990; Stinerock, Stem & Solomon, 1991).

However, others studies indicate that a "small and stable" business model seems to be more important to women, and they are less interested in business growth, and are happy with being small (Lee-Gosselin & Grise, 1990). If this is true, then long-range planning might be less important to women owner-managers of family firms. Thus:

H5: Family businesses which have a significant proportion of women family members involved in the management of the firm and family businesses which do not are equally likely to engage in long-term or strategic management activities.

### ***Financial Management Tools***

Another component of the "professional" management practices espoused in the literature is the use of sophisticated financial management tools (Aronoff, 1998; Cole & Wolken, 1995; Coleman & Carsky, 1999; Dyer, 1988; Filbeck & Lee, 2000; McConaughy & Phillips, 1999; Miller, McLeod & Oh, 2001; Schein, 1983).

Yet some studies indicate that women place greater emphasis on non-financial and personal goals (Hisrich & Brush, 1987; Kaplan, 1988), while others reject this finding (Fischer, Reuber & Dyke, 1993). Thus:

H6: Family businesses which have a significant proportion of women family members involved in the management of the firm and family businesses which do not are equally likely to use sophisticated methods of financial management.

### ***Founder's Influence***

Another issue of interest in the investigation of family business is "generational shadow" (Davis & Harveston, 1999). In a multigeneration family firm a generational shadow, shed by the founder, may be cast over the organization and the critical processes within it.

In such a situation, "succession" is considered incomplete, may constrain successors, and may have dysfunctional effects on the performance of the firm. Yet this "shadow" may also have positive impact, by providing a clear set of direction and standards for subsequent firm managers. Kelly, Athanassiou and Crittenden (2000) similarly proposed that a family firm founder's "legacy centrality" will influence the strategic behavior of succeeding generations' family member managers, with both positive and negative impact. Davis and Harveston (1999) also investigated generational shadow, but reached mixed conclusions regarding its impacts.

No discussion on was found in the literature on this topic relating to gender. Thus:

H7: Family businesses which have a significant proportion of women family members Involved in the management of the firm and family businesses which do not are equally likely to be influenced by the original business objectives and methods of the founder.

### ***Going Public***

Family businesses need not always be privately owned. As these firms grow and/or as they move into subsequent generational involvement, opportunities and needs for "going public" may arise. The family may not be able, or may not choose, to provide sufficient management or financial resources for growth, and outsider ownership can resolve this situation. And even publicly owned companies can continue as "family businesses," if management or financial control is maintained by the family. McConaughy (1994) found that 20% of the *Business Week* 1000 firms are family-controlled.

Here too, no gender-based discussion in the literature regarding "going public" was found. Thus:

H8: Family businesses which have a significant proportion of women family

members involved in the management of the firm and family businesses which do not are equally likely to have considered "going public."

### ***Formal versus Informal Management Style***

In conjunction with the literature's specific investigations of the use of outside advisors and financial management tools, there is a broader discussion of "formal" versus "Informal" management styles, with one end of a continuum including formal, objective and "professional" styles of leadership, and the other end involving informal, subjective and paternalistic styles (Aronoff, 1998; Cole & Wolken, 1995; Coleman & Carsky, 1999; Dyer, 1988; Filbeck & Lee, 2000; McConaughy & Phillips, 1999; Miller, McLeod & Oh, 2001, Schein, 1983).

With regard to gender, some studies have found no significant differences in management values or styles (Chaganti, 1986; Powell, 1990), while other research indicates that women rely more on social and other networks and less on individual systematic practices in their decision-making (Brush, 1992; Cuba et al., 1983; Hisrich & Brush, 1987; Moore & Buttner, 1997). Thus:

H9: Family businesses which have a significant proportion of women family members involved in the management of the firm and family businesses which do not are equally likely to use more formal rather than informal styles of leadership and management.

### ***Debt versus Equity Financing***

The capital structure decision is important for family business, and is a frequent focus of the literature (Cole & Wolken, 1995; Coleman & Carsky, 1999; Romano, Tanewski, & Smyrniotis, 2001). Some studies have shown that women business owners have less access to debt than do men (Hisrich, Brush, Good & DeSouza, 1997). Yet other research indicates that while women more frequently borrow from family and

friends, in recent years they have gained similar access to institutional loans (Haynes & Haynes, 1999). One Canadian study found that, on the aggregate, women receive credit on less favorable terms than men, but, when all factors are held constant (firm size, age, etc.), the differences were significant only with regard to collateral requirements (Riding & Swift, 1990).

If debt financing is more difficult to obtain for women, then perhaps they would engage in more equity financing than men. Thus:

H10: Family businesses which have a significant proportion of women family members involved in the management of the firm and family businesses which do not are equally likely to use equity financing rather than debt financing.

## **Methods**

### ***Sample***

Survey instruments were mailed or hand delivered to a variety of New York and Massachusetts companies. A total of 822 surveys were mailed or delivered; of these 272 were no longer at the address or responded that they were not family firms. Usable returned surveys numbered 149, providing a return rate of 27.1 %.

### ***Variables Measured and Analysis***

The data was based on self-reporting. The independent variable was the percentage of women family members. The respondents were separated into those firms in which 50% or more of the family members involved in the operations were women (n = 58) and those firms in which less than 50% were women (n = 91). As there are no prior research methodologies comparing percentage of women, it was believed that 50% (as a mid-point between totally men and totally women) was a logical methodological dividing point for this research study. Within the sample, there is also a

significant difference (.000) in the percentage of women family members in both groups.

The interval measured dependent variables to test for differences between percentage of women family members were as follows: (1) group decision-making, (2) family member conflict, (3) succession plans, (4) use of outside advisors, (5) long-term planning, (6) financial management tools, (7) founder's influence, (8) going public, and (9) formal versus informal style were all measured through a Likert scale of "describes our firm" 7 to 1 "does not describe our firm." H 1-9 were all tested for differences using the t-test. Hypothesis (10) debt versus equity is a nominal variable and was tested using a chi-square test. Demographic data were also run for descriptive statistics and to test for differences by percentage of women in the business.

## Results

### *Demographic Tests of Differences*

Of the sample of 149, the mean number of years the sample family businesses were in business was 42, with a s.d. of 33, and a median of 35. The mean number of employees was 205, with a s.d. of 682 due to outliers, with a median of 26. However, there was a significant difference in women percentage by years in business ( $p = .002$ ) and number of employees ( $p = .012$ ). The  $< 50\%$  women mean of years in business was greater: 46 (s.d. 31) vs.  $\Rightarrow 50\%$  30 (s.d. 26). The  $< 50\%$  women mean number of employees was also greater: 297 (s.d. 857) vs.  $\Rightarrow 50\%$  62 (s.d. 133).

When comparing the number of family generations, 43/29% were in the 1<sup>st</sup> generation family business, 57/38% were in the 2<sup>nd</sup> generation, and 49/33% were in the 3<sup>rd</sup> or more generations. When comparing  $< 50\%$  women to  $\Rightarrow 50\%$  by generations 1, 2, or 3, there are significantly more women ( $p = .003$ ) in the 1<sup>st</sup> (17/40% vs. 26/60%) generation businesses than 2<sup>nd</sup> (39/68% vs. 18/32%) and 3<sup>rd</sup> generations (35/71% vs. 14/29%).

The dominant form of ownership was corporation (117/79%) followed by sole proprietorship (17/11%) then partnership (15/10%). However, there was no significant difference in women percentage by form of ownership of  $< 50\%$  vs.  $\Rightarrow 50\%$  ( $p = .582$ ). Sole proprietorship was (9/53% vs. 8/47%), partnership (8/53% vs. 7/47%), and corporation (74/63% vs. 43/37%).

Industry comparison results include 38/25% of the sample selling products vs. 111/75% providing a service. However, there was no significant difference in women percentage by industry ( $p = .936$ ). Selling a product included 23/60% vs. 15/40% and 68/61% vs. 43/38% providing a service.

The percentage of non-family higher-level managers was also analyzed. Businesses with  $< 50\%$  women had 36% of their managers nonfamily members vs. 26% for businesses with  $\Rightarrow 50\%$ . However, the difference is not significant ( $p = .106$ ).

There were 93/62% founders still active in the firm vs. 56/37% inactive. There were no significant differences ( $p = .096$ ) by percentage of women with  $< 50\%$  (52/57% vs. 39/43%) and  $\Rightarrow 50\%$  (41/71% vs. 17/29%).

### *Hypothesis Testing*

There were no significant differences, in the means by the percentage of women ( $< \text{or} \Rightarrow 50\%$ ) working in the business, for any of the t- for Hypotheses 1-9. See the table for a comparison of means with p-values. Recall that H 1-9 are all measured on a Likert scale of "describes our firm" 7 to 1 "does not describe our firm," and H 10 is either debt or equity. See Table 1.

There was a significant chi-square difference in the use of debt or equity by percentage of women in the business. Of the total sample, 101/68% use debt financing and 48/32% use equity financing. Of the businesses with  $< 50\%$  women, 68/75% use debt financing and 23/25% use equity financing. Of the businesses with  $\Rightarrow 50\%$  women, 33/57% use



debt and 25/43% use equity financing. Thus, the businesses with < 50% women make significantly greater ( $p = .023$ ) use of debt financing.

### Discussion

With one exception (the use of debt versus equity financing) no differences were found between family businesses which have a significant proportion of women family members involved in the management of the firm and family businesses which do not. With regard to management activities and styles, both groups of family firms were not different with regard to:

- 1) group decision-making
- 2) family member conflict
- 3) succession plans
- 4) use of outside advisors
- 5) long-term planning
- 6) financial management tools
- 7) founder's influence
- 8) going public
- 9) formal versus informal management style

The only significant difference found was that, while both groups used debt financing more than equity financing, family businesses which have a significant proportion of women family members involved in the management of the firm were more likely to use equity financing than were those firms which did not have that proportion of women.

With regard to the descriptive statistical data, no differences were found with regard to legal form of ownership, type of business (product versus service), the percentage of non-family members among higher level managers, or the number of founders still active in the firm. Family businesses which have a significant proportion of women family members involved in the management of the firm had been in business for a shorter period of time, had fewer employees, and had fewer generations of the family currently or previously involved in the firm.

### Conclusions

As discussed earlier, most research studies in the past two decades found more similarities than differences with regard to management styles and behavior between women and men business managers, entrepreneurs and family firm owner-managers. (Birley, 1989; Carsrud, Gaglio & Olm, 1986; Eagly, Karau & Makhajani, 1995; Hollander, 1992; Hudgens & Fatkin, 1985; Hyde, 1990; Johnson & Powell, 1994; Sexton & Bowman-Upton; Stinerock, Stem & Solomon, 1991; Watson, 2002). Although these prior studies found some specific gender differences, creating discrepancies in the literature, these disparities were generally with regard to one or a few aspects of management style or behavior, within the larger context of gender similarities. This study's findings thus support these previous studies, but even more strongly support those studies which found virtually no significant gender differences at all (Chaganti, 1986; Powell, 1990).

Conversely, this study's findings contrast with the majority of pre-1980 studies which found major gender differences in entrepreneurial behavior, as discussed by Johnson and Powell (1994), Powell and Ansic (1997), and Sonfield, Lussier, Corman and McKinney (2001).

With regard to the single gender difference found in this study, there are several possible explanations as to why the family firms with significant women involvement were more likely to use equity financing rather than debt financing. The current body of research provides mixed conclusions as to whether debt is equally or less accessible to women business owners (Haynes & Haynes, 1999; Riding & Swift, 1990). If women have less access to debt financing (Hisfich, Brush, Good & DeSouza, 1997), then the alternative would be equity financing, often from their own financial resources and from family and friends. But it

should also be noted that the firms in this study with significant women involvement tended to be younger and smaller, and such firms in general may find lending institutions less willing to provide debt financing. Thus this debt/equity difference may be based more on company age and size than on owner/manager gender.

The differing demographic characteristics of the two groups also seem logical in light of the broader trends regarding women in business. Since the entry of women into all aspects of the business world has been more recent than for men (Moore & Buttner, 1997), it would follow that family firms with a significant proportion of women family members involved would be younger, smaller, have fewer employees, and have fewer family generations involved.

A limitation of this study is the lack of a strong and conclusive body of research as the foundation for the hypotheses, but at the same time the results of this study add to the limited body of empirical research in the area of gender and family business, and to the broader body of research regarding gender differences in management. Yet the results of both the narrow and the broader bodies of research, while tilting toward the support of gender similarities, continue to lack strong and convincing consensus and thus indicate a need for still further research efforts, especially in the context of family business. Such further research efforts have been advocated by other researchers (Nelton, 1998).

Thus, this study supports a general similarity, with minimal differences, between management styles and behavior in family firms that do and do not have a significant proportion of women family members involved in the management of the firm. If separate models of women's family business, entrepreneurship, and management in general are found to be appropriate and are to be of value, then consensus must be stronger to validate whether any specific gender differences exist and how

such differences fit into an apparently larger context of similarities (Starr & Yudkin, 1996).

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**Table 1**  
**Hypotheses Tests**

(N=149) (n = 91 <50% & n = 58 =>50%)

	Means/%	
Hypothesis	< 50%	P-value
	=> 50%	
1. group decision-making	3.92	.848
	4.00	
2. family member conflict	2.36	.465
	2.59	
3. succession plans	3.15	.273
	2.72	
4. use of outside advisors	4.31	.598
	4.10	
5. long-term planning	3.23	.981
	3.21	
6. financial management	3.44	.52 1
tools	3,21	
7. founder's influence	5.07	.706
	4.95	
8. going public	1.36	.997
	1.36	
9. formal vs. informal style	3.59	.753
	3.50	
10. use of debt or equity	74%/26%	.023
	57%/43%	

# **Entrepreneurship Education For Young People, Low-To-Moderate Income Individuals And Other Special Groups: Opportunities And Comparative Experiences**

*Chyi Lyi (Kathleen) Liang, The University of Vermont  
Paul Dunn, The University of Louisiana at Monroe*

## **Introduction**

Entrepreneurship and small business development are recognized as ways to build stronger communities. This development strategy will involve entrepreneurship education. Entrepreneurs who come from entrepreneurial and small business families are aware of the opportunities to start new ventures. Young people who do not have a background in entrepreneurship and small businesses may not be aware of the opportunities and have few or no role models.

Entrepreneurial activity among young people, low-to-moderate income individuals, American Indians, immigrants and other underserved groups could result in additional businesses and jobs. These groups need and deserve better lives. Assisting them to become aware of the possibility and their pursuit of new ventures is an important way for universities to assist individuals to develop themselves and their communities.

## **Purpose**

The purpose of the symposium is to (1) allow SBIDA members to share their experiences in developing and implementing entrepreneurship education programs for special groups; (2) explore different approaches that have been developed to help special groups learn about entrepreneurship in different areas; and (3) explore the potential for expanding service learning, resident camps, micro enterprise programs, and other approaches to help these groups learn about entrepreneurship, the

opportunities available to them, and how to develop, assess, and implement those opportunities.

The symposium will allow entrepreneurship educators to participate in a discussion that should lead to new insights about the possibilities and opportunities for their universities to help special groups learn about entrepreneurship that target communities that have few or no entrepreneurial models and or resources for development.

## **Justification**

Different regions and communities in the same region probably have developed different approaches to entrepreneurship education. Entrepreneurship has been and is being taught to a variety of youth groups, low-to-moderate income individuals, and other special groups in the country. These groups are in rural areas, inner cities, on reservations, among immigrant families, and other underserved and/or "at risk" populations where funding and resources for entrepreneurship education are limited and where little infrastructure has been developed, poverty is a reality for many, entrepreneurship education programs are limited, and opportunities for potential entrepreneurs have not been explored.

The facilitators have experience in developing and implementing entrepreneurship education programs for youth, low-to-moderate income individuals, and other special groups in both rural and inner city areas. Some SBIDA members and others have similar and different



experiences in this rapidly growing field. Such experiences should be shared so that interested SBIDA members can develop new programs and improve existing programs.

In youth entrepreneurship education, several Vermont public schools have adopted the Rural Entrepreneurship Through Action Learning (REAL) to teach K-12 students. These schools are scattered around central and southern Vermont. The majority of low-income counties in northeast Vermont have programs specifically designed to help young people learn entrepreneurial skills. These and other rural counties throughout the nation could benefit from entrepreneurship education to enhance local skilled labor supply, to extend entrepreneurial education, to help local groups, and to promote local business and economic development.

In 2000, the Department of Community Development and Applied Economics at the University of Vermont created and implemented a service-learning program using senior students from UVM Agricultural and Resource Entrepreneurship majors to work with local high school students and teachers in REAL programs. The long-term goal of this project is to build a sustained K-12 entrepreneurship education program in Vermont. Major goals of this project were to (1) establish a REAL Enterprises post secondary model at the University of Vermont through the Agricultural and Resource Entrepreneurship major; (2) create a student service learning program for UVM undergraduates (a semester or year-long school based internships) with REAL teachers at the elementary, middle and high schools; and (3) develop an articulation system between high schools and UVM.

Similar special programs have been developed by the University of Louisiana at Monroe and are currently being extended to other areas in the Lower Mississippi Delta. The Youth and Adult

Entrepreneurship Program was developed and implemented as a joint project of Renewal, Incorporated (a faith-based organization in Monroe, Louisiana), the Ouachita Enterprise Community, and the University of Louisiana at Monroe Entrepreneurship Studies Center (ULMESC). ULM faculty, students and staff developed and are implementing the program.

The ULMESC also has developed and conducts an annual Camp Enterprise, co-sponsored with the District Rotary Club, for rising high school seniors from throughout north Louisiana.

A new Micro Enterprise Initiative to assist low-to-moderate income individuals has been developed and is being implemented by the ULMSBDC.

The experiences gleaned from Vermont and Louisiana will be presented briefly. Other SBIDA members probably have or are developing entrepreneurship education programs and are encouraged to share their experiences with symposium participants.

Young people, low-to-moderate income individuals, and other special groups are important to the future of America. Introducing them to entrepreneurship and entrepreneurial opportunities is an additional economic and business development tool that can create jobs and wealth. Individuals raised in small businesses know the opportunities that option presents. However, many individuals are not part of small business families and have not or do not see the opportunities entrepreneurship opens for them or understand how to create their own job through entrepreneurial activity. If entrepreneurship education programs for these groups can be developed, they may realize these opportunities and understand how to develop them into jobs for themselves and for their community. Generating business ideas and practicing entrepreneurial skills offer these

groups an opportunity to consider starting new ventures.

Exploring how to help young people, low-to-moderate income individuals and other special groups recognize the possibilities of entrepreneurship and learn the entrepreneurial knowledge and skills required to become a practicing entrepreneur will be an integral part of this symposium.

**Description**

SBIDA members and other participants from throughout the world will have an opportunity to share ideas about building effective entrepreneurship education programs to serve groups in their communities. Specific topics will be discussed include:

- Creating and developing entrepreneurship education resource partnerships;
- Identify entrepreneurial education and business and economic development opportunities;
- Explore opportunities for entrepreneurship education in underserved communities;
- Share entrepreneurial education experiences in various circumstances;
- Build networks for entrepreneurship education among SBIDA members;
- Using technology in entrepreneurial education.

The UVM and ULM experiences will be shared with symposium participants. Materials related to these programs, such as resource development, contracts, assignments, activities, and evaluation will also be shared with symposium attendants. SBIDA members and others who have or want to develop entrepreneurship education programs are encouraged to join the symposium and share

their experiences, knowledge, and materials with other participants.

**Symposium facilitators**

Chyi Lyi (Kathleen) Liang, Assistant Professor, Department of Community Development and Applied Economics, College of Agriculture and Life Sciences, The University of Vermont, who teaches entrepreneurship and small business, has developed programs for youth and rural entrepreneurs in Vermont. Dr. Liang is the director of a Coleman Foundation project, Building REAL Learning Opportunities K-16 in

Paul Dunn, Distinguished Professor of Entrepreneurship and Small Business Management and director of the Entrepreneurship Studies Center, the Small Business Development Center and the Small Business Institute, College of Business Administration, University of Louisiana at Monroe. Dr. Dunn has been very involved in economic development and diversification through entrepreneurship and small business development since 1968.

# **WORKSHOP: EXPERIENTIAL LEARNING IN THE GLOBAL ARENA**

## **PRESENTERS:**

Don B. Bradley, University of Central Arkansas

Charles H. Matthews, University of Cincinnati

Damon A. Revelas, American College of Management & Technology

Dewey E. Johnson, California State University-Fresno

## **FACILITATOR:**

Sherrill R. Taylor, Texas Woman's University

### **Workshop Objective:**

Each presenter will talk briefly about their experience as both a visitor and an educator to areas outside the United States as well as give their insight into the opportunities available in experiential education in those specific regions. Each presenter will be expected to address the concept of student field-based study in the regions discussed as well as their opinion as to other pedagogy techniques that may be useful in assisting the economic development of those countries. Other topics that may be included are "how to find teaching opportunities abroad?", "teaching compensation", and "culture and its affects on teaching."

### **Workshop Process/Procedure:**

Each presenter will give brief presentations related to their experiences in the global academic/consulting area. After the panel has concluded their presentations, the attendees will be able to ask questions of the panel. It is hoped that there will be time for brainstorming, to develop ideas for reaching out to other countries

and expanding our global reach as an organization.

### **Presenters:**

Don B. Bradley, 111, is an internationally known small business consultant. He has worked closely with the US Small Business Administration for over 30 years and is a recipient of the SBA Veteran's Small Business Advocate of the Year at the district and regional level. Dr. Bradley is also the founder and active Director for the Small Business Advancement National Center. Dr. Bradley has worked closely with economic development in other countries such as Ireland, Australia, Bulgaria, Canada, China, England, France, Germany, Italy, Mexico, the Netherlands, New Zealand, Portugal, Russia and others.

Charles Matthews is an internationally recognized scholar and innovative teacher in the field of entrepreneurship. In addition to all of his accomplishments in the continental US arena, he has served as a delegate on entrepreneurial development in China and the

former Soviet union (including Russia, Latvia, and Estonia) and was honored to receive a Malone Fellowship for study in Saudi Arabia and Bahrain. He has also participated in a two-week Faculty Study Abroad program on the Integration and Unification of the European Union, which included educational implications of the EU.

Damon Revelas is the Associate Dean of the American College of Management & Technology in Hrvatska/Croatia. This program is a partnership between America and Croatia. It was created in 1997 as a collaborative effort between the Rochester Institute of Technology (RIT) from New York State, USA and Veleučilište u Dubrovniku - The Politechnic of Dubrovnik. Dr. Revelas is a brand new member of the Small Business Institute@ National organization.

Dewey Johnson has almost 10 years of experience teaching in the People's Republic of China (PRC). His vast experience in consulting and with the SBI format have led to interesting experiences in education and have resulted in developing teaching techniques and materials, business practices, and culture knowledge of use in the PRC. Of special interest in his presentation are insights of one of his former students who started and grew the largest business of its type in Shanghai.

#### **Facilitator:**

Sherrie Taylor is the current President of the Small Business Institute national program and has been an SBI director for 10 years. She also has used different experiential learning techniques with her students in her role as a Sam Walton Free Enterprise Fellow with SIFE (Students in Free Enterprise) including an international project with a primary school in South Africa.

## **Panel/Workshop:**

### **Selected Issues of Relevance for SBI Directors and Small Business Consultants**

*Stephanie Huneycutt, Christopher Newport University*

*Frederick D. Greene, Manhattan College*

*Bruce Kemelgor, University of Louisville*

#### ***Legal Issues for Small Business Clients***

Workshop that identifies the legal hot topics in small business consulting for all businesses with highlights on current bankruptcy issues, collections issues, arbitration, and FTC "spam" law decisions. Participants will receive the top 25 legal issues and strategies for dealing with these issues; including tips appropriate for student consultants, professional consultants and business clients.

#### ***Research Roundtable***

Participants will create a database of current research interests and indicate interest in

potential for collaboration with other participants. Participants describe their current research in progress, and special features of the research or problems encountered. Database is created and distributed to all participants [and posted on SBI website if possible].

#### ***Becoming a Certified Small Business Counselor***

Workshop reviews the SBIDA Certified Small Business Counselor (CSBC) Certification Process including program and documentation requirements.

**Small Business Institute Workshop: Teaching Small Business  
and Entrepreneurship in the People's Republic of China**

*Dewey E. Johnson, California State University, Fresno*

**Purpose**

This workshop, based on the presenter's almost ten years of experience teaching in the People's Republic of China (PRC), will discuss new opportunities for teaching small business and entrepreneurship. The workshop will also discuss tips on teaching techniques and materials, business practices, and culture.

**Background**

"The business of the PRC is now officially business." The recent PRC 16<sup>th</sup> Party Congress has signaled a new formal emphasis on small business and entrepreneurship by the Central Government. For example, two of China's leading entrepreneurs have been invited to join the influential circle of leadership, a major decision-making body. While the Chinese have traditionally been one of the world's most entrepreneurial peoples as evidenced by their prominent roles in the economies of many Asian countries, the Central Government has been focused on state own businesses.

This change in Central Government policy will prompt exciting opportunities to teach in China. The workshop will also rely on the insights of one of the author's former students who started and grew the largest business of its type in Shanghai.

**Topics**

- Among the topics that will be discussed are:
- How to find teaching opportunities
  - Teaching compensation
  - Starting a business in China
  - Preparing teaching materials
  - Delivering subject matter
  - Culture and its influence on teaching
  - Places to travel

**Materials**

Participants will receive a copy of the workshop's PowerPoint presentation.

**Time**

Thirty (30) minutes.

# **Town and Gown Partnerships in Economic Development: Stimulating Youth Entrepreneurship**

*Steven B. Moser, University of North Dakota*

*Dennis J. Elbert, University of North Dakota*

## **ABSTRACT**

This workshop will focus on efforts that can be made to achieve mutually beneficial partnerships between cities and universities in economic development. The message that is intended focuses on the possibility of sustaining successful campus programs with the help of city administrators if a suitable sales pitch is made. In areas facing an out migration of youth, the intention of the workshop is to discuss possible programs that will combat this problem.

## **OVERVIEW**

This workshop will focus on efforts that can be made to achieve mutually beneficial partnerships between cities and universities in economic development. The message that is intended focuses on the possibility of sustaining successful campus programs with the help of city administrators if a suitable sales pitch is made. In areas facing an out migration of youth, the intention of the workshop is to discuss possible programs that will combat this problem.

As an illustration of a successful partnership that has been developed, the Kauffman Entrepreneurship Internship program operating at the University of North Dakota will be highlighted. For seven semesters, over fifty interns have been placed with entrepreneurial businesses in and around the community. The program is now in the "support funding" phase. As such, the

intention of the funding agency, the Ewing Marion Kauffman Foundation, is to reduce dependency of the program on Kauffman funding.

In order to expand the potential of the Kauffman Program, the Population Retention sub-committee of the Grand Forks City Council proposed a unique solution to help address the desire to retain more of the students that are traditionally exported once they graduate from the university. The proposal was developed based on the successful experiences that young members of the community have had with the Kauffman program. The method proposed builds on the mission of the Kauffman Foundation when the internship program was developed: It addresses the need to provide more experiences for young prospective entrepreneurs by pairing them with successful entrepreneurs in the community.

Under the original agreement with the Kauffman Foundation for the 2002-2003 academic year, ten interns were to be placed with area businesses. Through the addition of funding provided by the Grand Forks City Council, the number is now up to sixteen. Eight of these students were placed with eight different businesses for fall semester 2002. Our initial agreement with the Kauffman Foundation provided up to \$10,000 for these interns, supporting ten total students working up to 300 hours at \$9.30/hour (20 hours/week for 15 weeks). Participating businesses paid for two thirds of the cost of the program in two \$ 1,000

increments. Now the City Council has pledged up to \$15,000 per year for three years to match funding provided by the Kauffman Foundation as well as the participating entrepreneurs.

Based on this generous support, we choose to make changes to the program to both recognize students' needs as well as to lower the burden on the business. Further, the intention was to draw more students and entrepreneurs into the program. The hourly rate for the interns is now \$12.40/hour with a decrease to the total hours expected of 300 total down to 225. This translates into 15 hours per week (down from 20 hours/week) for the students. This is felt to be more helpful to students doing their intern work while carrying a full load of credits. We are also promoting the Kauffman program for 2002-2003 as allowing these students to work on exploring new business opportunities that are of interest to area entrepreneurs that otherwise would not be completed. Our interest would be to have the interns essentially create their own future jobs through this process.

The potential of this program to support and help build the business community while providing incentives for our young people to stay in North Dakota is great. We feel that this unique action, taken at a time when the City Council has found it necessary to cut other programs, represents a terrific effort to further Economic Development in Grand Forks and the region.

Through a discussion of this program as well as other possible methods of utilizing the support of city leaders in the building of the economic community, we hope to stimulate ideas that may be applied on campuses and in communities in other comparable parts of the country.



# Hands-On Workshop: Working with Entrepreneurs with Disabilities

*William P. Galle, Jr., University of New Orleans*  
*Kenneth J. Lacho, University of New Orleans*

## Abstract

This workshop offers the opportunity for SBIDA professors to gain experience in working with and an understanding of the special concerns of persons with disabilities who wish to start a business.

## Introduction

The U.S. economy has been undergoing a quiet revolution, a transformation from the industrial to the information age. One of the elements of this change is the economic engine of small business growth. In 1997 there were 23.655 million corporations, partnerships, and proprietorships with fewer than 500 employees, up from 18,286,000 in 1987. In addition, in 1997 there were 885,416 new small firms up from 748,000 in 1987.

The 1990 census data show that 12.2 percent of persons with a work disability were self-employed compared to 7.8 percent of persons with no disability. According to the U.S. Department of Labor, entrepreneurship provides both benefits and disadvantages to the person with a disability. Benefits of self-employment include independence, work flexibility, and freedom from access-related obstacles such as fatigue and transportation. On the other hand, potential disadvantages include loss of cash and other benefits from government programs, access. The ExcEL program is comprised of four distinct phases. The first phase includes program orientation and training in business basics for LRS counselors throughout the state. Almost two hundred counselors have received training since the inception of the program in 1999. Pre-

To capitol and lack of assests to use as collateral. Starting a business provides an oppurtunity for people with disabilities. With the Americans with Disabilities Act (ADA) providing a framework, a number of nonprofit organizations and local, state, and federal programs have been devolped to support entrepreneurship education for persons with disialibilities.

One such program is the Excellent Entrepreneurs in Louisiana (ExcEL) program sponsored by the Louisiana Rehabilitation Services (LRS) and conducted through the Technological Assistance Resource Center (TRAC) at the University of New Orleans.

## The ExcEL Program

The Exceptional Entrepreneurs of Louisiana Program is uniquely designed to assist state residents with disabilities to start their own businesses. It is sponsored and funded by the Louisiana Rehabilitation Service. While all states have a rehabilitation agency, few have a program, which provides the features of the ExcEL program. To ensure success, the program features a state-of-the-art facility at the University of New Orleans, highly qualified business faculty and rehabilitation staff, and changes in state policy, which provides an almost seamless process for clients.

test, post-test comparisons reveal that the counselors have learned a great deal about the basics of business and how to fulfill their role in the program.

The second phase of the ExcEL program is an

introductory workshop. The purpose of the workshop is to introduce clients to the program and to screen them for future involvement. The 16-hour program provides an overview for the clients and an opportunity for the ExcEL faculty and staff to gather information with which to evaluate the clients. After the workshops, the faculty and staff evaluate the clients and decide whether or not to invite them to the third phase of the program, an intensive two-week workshop.

In the third phase, clients remain at the UNO facility where they are provided room and board. Week one of the program provides intensive training to business essentials and an opportunity for clients to meet successful practicing entrepreneurs from the New Orleans area. Week two is devoted to identifying, collecting and organizing information into a business plan.

The fourth phase of the program consists of follow-up work with clients. Faculty and staff are available to help clients fine-tune their business plan. Assistance is provided in the field, during campus visits, by telephone, fax and e-mail. Clients are also provided contacts for specialized help with individual problems either in the New Orleans area or in their hometown.

The elapsed time for clients to complete the program has been quite varied. Some 99 have been dropped or withdrawn themselves. Eighteen are on a waiting list to take the two-week course. Twenty-two are in the process of writing their business plan or negotiating the financing with their counselors. Thirty-five had business plans approved and received a \$20,000 grant from the LRS to start their businesses. Of these, 34 are still in business.

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