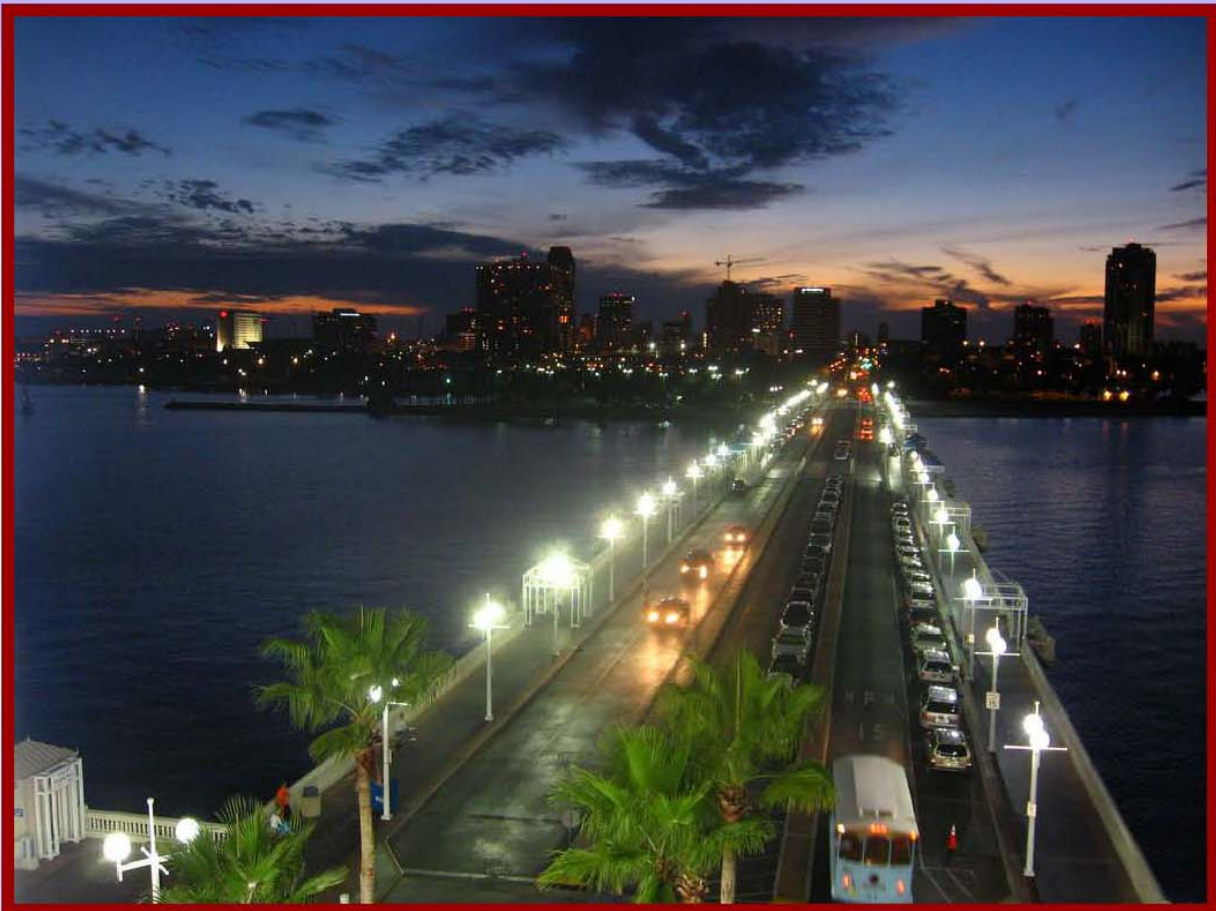


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Dedication

Small Business Institute® National Proceedings
Winter 2009 Conference

This Proceedings of the 33rd Annual Conference of the Small Business Institute® is dedicated to spirited professors, educators and others whose intellect and effort foster entrepreneurial education.

Within these pages can be found treatises and research which raise crucial issues relating to community engagement, small business success and failure, family minority and women owned businesses, and international practices. Read and discover scholarly exploration and elucidation on topics ranging from finance, accounting, and law to strategy, internships and consulting; all designed to enlighten and inform.

Special thanks to Ron Cook of Rider University, Vice President of Programs, for his advice and recommendations; and special thanks to Ms. Lee Ann Wise, of Christopher Newport University for her wonderful assistance in formatting and producing these proceedings! On a happy note, these 33rd Annual proceedings will be available for the first time in Small Business Institute® history on our organization website.

To my colleagues, thank you for your outstanding contributions contained herein!

Stephanie Bardwell
Editor, 33rd Annual National Conference Proceedings
Small Business Institute®
Christopher Newport University
Newport News, VA
February 2009

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A CONNECTION BETWEEN PERSONALITY AND ENTREPRENEURIAL ATTITUDES: EVIDENCE FROM U.S. BUSINESS STUDENTS

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ABSTRACT

The current study examined the degree to which personality variables were correlated with entrepreneurial attitudes in U.S. college students. Findings indicated that both entrepreneurial self esteem and achievement were significantly correlated with all of the personality variables; entrepreneurial innovation was significantly correlated with both ingenuity and strong judgment, but not with perseverance and variety seeking; and entrepreneurial personal control was only significantly correlated with the personality construct strong judgment. The patterns of correlation were also found to be fairly consistent across males and females; however the actual strength of the attitudes and personality constructs were not always the same.

INTRODUCTION

Various reports from the Global Entrepreneurship Monitor (GEM) have lauded the importance of entrepreneurship in the global economy. Entrepreneurs are constantly pursuing new business ventures based on opportunity and/or necessity, and are often able to improve the competitiveness and innovation within their specific region of the world. Thompson (2004) suggests that entrepreneurship is often a blend of temperament, talent, and technique. The current study focuses on elements of entrepreneurial temperament by examining the relationship between the personality constructs of ingenuity, perseverance, variety seeking, strong judgment, and entrepreneurial attitudes. The goal is to determine not only if these personality traits are correlated with entrepreneurial attitudes, but also if any gender differences exist. Hisrich, Langan-Fox and Grant (2007) have recently called for greater exploration into the personality characteristics of entrepreneurs.

Personality, Attitudes and Entrepreneurship Management research has made extensive use of psychological personality variables as predictors for constructs such as leadership, organizational behavior, and entrepreneurship. According to Rauch and Frese (2007a), personality variables serve an important role in the development of a consistent entrepreneurship theory. As such, they call for the inclusion of entrepreneurship as a more “active participant” in the revival of personality research (p. 44). The current study makes an effort to do that by examining the role of individual differences in relation to entrepreneurial attitudes.

Prior research has examined numerous personality constructs in the field of entrepreneurship, and various traits have been linked to business creation and success (Rauch & Frese, 2007a). McClelland (1961) and Collins, Hanges & Locke (2004) assert that need for achievement is an entrepreneurial trait and positively correlated with business success (Rauch &

Frese, 2007b), while Gasse (1985) and Hansemark (2003) found that entrepreneurs often possess a greater internal locus of control. Research also suggests that entrepreneurs are confident (Robinson, 1987), have a high level of self esteem and self efficacy (Krueger & Brazeal, 1994; Erickson, 2002; Frazier & Niehm, 2006; Rauch & Frese, 2007b), demonstrate greater initiative (Bateman & Grant, 1993; Stewart, Watson, Carland & Carland, 1999), and possess a more positive attitude toward risk and autonomy (Douglas & Shepherd, 2002; McMullen & Shepherd, 2006; Rauch & Frese, 2007a). In addition, creativity (Feldman & Bolino, 2000; Zampetakis & Moustakis, 2006), innovation (Rauch & Frese, 2007b) and improvisation (Hmieleski & Corbett, 2006) have been linked to entrepreneurial intentions and business success.

Obviously there are numerous personality constructs that have been shown to have potential for predicting either entrepreneurship or entrepreneurial success. The current paper will focus on four of these which are thought to be positively associated with entrepreneurial attitudes.

Ingenuity. Ingenuity is typically defined as being creative or cleverly inventive; having cleverness or skillfulness in conception and design (ingenuity, n.d.). In the realm of entrepreneurship the concept of ingenuity is frequently so embedded in the very concept of entrepreneurial activity that they cannot be separated – to engage in entrepreneurship is to innovate, to approach a product, market, or service in a way that others have not successfully done before. Actually very little empirical research seeks to measure the personality construct ingenuity, instead seeming to prefer a focus on creativity. Creativity and ingenuity are often linked together and involve the willingness to identify novel or unique ways of action (Patchen, 1965). Feldman,

Csikszentmihalyi and Gardner (1994) believe that creative people are good at problem solving, posing new questions, and identifying new products or services. Similarly, De Bono (1996) defines creativity as the formulation of something currently not available. As explained by Thompson (2004), creativity underpins innovation and innovation underpins the displayed ingenuity which is a necessary attribute of enterprise development. Because entrepreneurs face constant challenges, ingenuity is a vital attribute in successfully overcoming the numerous hurdles encountered (Amabile, 1983).

Perseverance. The perceived ability to overcome adverse circumstances (Stoltz, 1997) has long been considered a requirement of entrepreneurship. According to Eisenberger and Leonard (1980) perseverance influences individuals' courses of action, the level of effort individuals exhibit in their endeavors, and the endurance and resilience exhibited toward setbacks and failure (Gideon, Baron, and Balkan, 2005). Markman (2007) proposes that the general ability to overcome adversity is a required competency in entrepreneurship because of the repeated obstacles and uncertain outcomes encountered. Supporting this contention, Gideon, Baron, and Balkan (2005) concluded that because individuals react differently to similar adversities, success in entrepreneurship contexts is determined by the extent to which individuals persevere despite what appear to be insurmountable obstacles, or adversities (Stoltz, 1997). Similarly, Locke and Baum (2007) consider perseverance to be among the motivating factors which are necessary for entrepreneurship. Their conceptualization of entrepreneurial motivation is synonymous with the concept of perseverance - an inner drive toward entrepreneurship goals that energizes,

directs, and sustains new venture creation and growth.

Variety Seeking. Efforts to explain innovative behavior are now focused upon not only dispositional variables, but also the interaction of individual and situational variables (Burns, 2007). The degree to which one has a high motivation to experience variation has been linked to many human behaviors, including consumerism (Mittelstaedt, Grossbart, Curtis, & DeVere, 1976; Stanforth, 1995; Wahlers, Dunn, & Etzel, 1986; Workman & Johnson, 1993), food preferences (Logue & Smith, 1986; Potts & Wardle, 1998), and internet preferences (Slater, 2003), among others. Pre-dating the term variety seeking – and typically considered the primary direct source of it – is the concept of sensation seeking, or desire for “varied, novel and complex sensations and experiences, and willingness to take physical and social risks for the sake of such experiences” (Zuckerman, 1979, p. 10). This definition is in many ways akin to how we typically describe an entrepreneur, as someone who is willing to undertake risk in the process of beginning a new business enterprise. This is also consistent with those who note the strong desire of entrepreneurs to be creative and to create something larger than themselves (Engle, Mah & Sadri, 1997). Variety seeking is also thought to develop from indirect or situational sources, and this to is consistent with many characterizations of new venture creation. Specifically, not all motivations for variation arise from an internal preference for change, but rather some develop from the desire to solve a problem, or as reactions to changes in the environment (Van Trijp, 1995). For some entrepreneurs the motivation to attempt something new is very much a response to situational factors including dissatisfaction with current work, inadequacies identified in

current products, or other unique opportunities which present themselves.

Strong Judgment. Strong judgment refers to the process of collecting information prior to decision making, as opposed to acting rashly and without knowledge. Very few successful entrepreneurs begin their enterprises without thoughtful consideration of many factors related to their goals. Data-driven information processing is typically associated with novel decision situations (Louis & Sutton, 1991; Walsh, 1995), and the decision to create a new venture is a novel situation for most individuals. For many entrepreneurs data collection takes the form of accumulating confirming and disconfirming evidence via intensive searching for information related to their efforts (Learned, 1992). Baron (2000) has found that entrepreneurs are less likely to engage in counterfactual thinking than are others and that this leads to fewer decisions based heuristics or upon poor judgment. Bo Peabody, a poster-child of the multi-millionaire internet entrepreneur, argues that while some success stories are predicated on being lucky, many others are based upon being smart (Farrell, n.d.). Indeed Shook, Priem, and McGee (2003) undertook a review of the literature on venture creation and individual attributes associated with it and determined that individual judgment was a particularly important future direction for research on the role of enterprising individuals in venture creation because sound entrepreneurial judgment is required in each phase of venture creation process.

Entrepreneurial Attitudes. An attitude is “a complex mental state involving beliefs and feelings and values and dispositions to act in certain ways” (attitude, n.d.). Attitudes have a behavioral component (along with affective and cognitive components) that consists of intentions and predispositions to act in a

particular way toward some subject (Shaver, 1987), and can offer a prediction about a person's future actions (Carlson, 1985). The work of Robinson, Stimpson, Huefner, and Hunt (1991) was one of the first to use an attitudinal scale to predict entrepreneurial activity. They designed the Entrepreneurial Attitude Orientation (EAO) model to measure entrepreneurial attitudes based on the constructs of achievement, innovation, personal control and self esteem. Achievement in business refers to concrete results associated with the start of a business; personal control of business outcomes concerns one's perception of control or influence over his or her business; innovation in business relates to acting on business activities in novel ways; and perceived self-esteem in business relates to self-confidence with regard to one's business affairs.

The theory of planned behavior argues that intention is an antecedent to behavior (Ajzen, 1991), and prior studies have shown that intentions play a crucial role in understanding the entrepreneurial process (Shapero & Sokol 1982; Krueger, 1993; Krueger & Brazeal, 1994). Attitudes have been linked with entrepreneurial intentions (Shapero & Sokol, 1982), and positive entrepreneurial experiences can impact intentions and perceived desirability to start a new venture (Krueger, 1993). The entrepreneurial intentions framework developed by Krueger and Brazeal (1994) proposed that entrepreneurial characteristics could be learned and often vary based on personal characteristics and situations.

Gender and Entrepreneurship

Past research has suggested that women are often faced with substantial obstacles when engaging in entrepreneurial activities. As indicated in the GEM's 2006 *Report on Women and Entrepreneurship* (Allen, Langowitz & Minniti, 2007) men are twice as likely to engage in entrepreneurial

activities as women on a global scale. Interestingly, this gender gap is more pronounced in high income countries. Some of the specific challenges women may face include less managerial experience and technical expertise (Chaganti & Parasuraman, 1996; Jones & Tullous, 2002), as well as access to fewer financial resources and role models (Hisrich & Brush, 1987; Thomas, 2001; Marlow & Patton, 2005). Research has also indicated that women may not be as interested in business ownership (Matthews & Moser, 1995; Kourilsky & Walstad, 1997), and less optimistic (Carter, 2000) for success when they actually start a new venture. This can create a situation where women entrepreneurs may not be taken as seriously as their male counterparts (Woldie & Adersua, 2004).

While any of these aforementioned factors may impede their progress in achieving entrepreneurial success, entrepreneurship can be an important source of future employment for women. Perhaps a more in-depth examination of possible links between personality and attitudes can lead to a better understanding of real or perceived gender differences towards entrepreneurship.

HYPOTHESES

Because considerable past research has indicated a strong relationship between personality and attitudes, correlations among the variables of interest are anticipated as follows:

- H1: Entrepreneurial innovation is anticipated to exhibit a positive relationship with all of the personality traits examined.
- H2: Entrepreneurial achievement is anticipated to exhibit a positive relationship with all

of the personality traits examined.

- H3: Entrepreneurial personal control is anticipated to exhibit a positive relationship with all of the personality traits except ingenuity. The trait ingenuity may be at odds with the concept of personal control.
- H4: Entrepreneurial self esteem is anticipated to exhibit a positive relationship with all of the personality traits examined.
- H5: It is further anticipated that these relationships will be demonstrated for all participants; as the personality constructs are not known to be differentially distributed across male and female populations.

METHOD

Participants

Participants were 307 students enrolled at multiple colleges and universities (37% males, 63% females), ranging in age from 17 to 57 years old, with an average age of 25.3 years.

Procedure

During the 2007-08 academic year, faculty teaching undergraduate courses received a letter requesting their voluntary participation. The stated purpose of the study was to examine the relationship between personality variables and entrepreneurial attitudes. Faculty members have been asked to request that their students complete an 88-item anonymous online survey. Survey completion was

entirely voluntary and no identifying information was recorded.

Measures

We measured entrepreneurial attitudes with the EAO survey instrument (Robinson et al., 1991), along with additional measures of ingenuity, perseverance, variety seeking, and strong judgment (Goldberg, Johnson, Eber, Hogan, Ashton, Cloninger & Gough, 2006). The EAO is theoretically well grounded and provides a composite score based on four attitude subscales: 1) Achievement in business (Cronbach's alpha = .84), 2) Personal control of business outcomes (Cronbach's alpha = .70), 3) Innovation in business (Cronbach's alpha = .90), and 4) Self-esteem in business (Cronbach's alpha = .73). The four subscales have been shown to produce 77% accuracy in predicting entrepreneurship (Robinson et al., 1991).

Analyses

The primary goal of the current study is to expand upon our understanding of the relationship between personality and entrepreneurial attitudes among U.S. college students. Consistent with this, the variables of interest were examined utilizing correlation analyses. Because prior research has indicated some differences in the strength of entrepreneurial attitudes among male and female college students (Ede, Panigrahi & Calcich, 1998; Harris & Gibson, 2008), the patterns of correlation will also be examined based upon gender.

RESULTS

Table 1 provides the descriptive statistics for the four entrepreneurial attitudes and the four personality variables for the entire student population and broken down by gender. It also indicates the results of the t-tests comparing male and females mean scores on the variables of interest. Only ingenuity and entrepreneurial self esteem were found to significantly differ

along gender lines; while males had higher ingenuity scores, females appeared to possess stronger levels of entrepreneurial self esteem.

Table 1. Descriptive Statistics & T-Test results of Mean Differences

	Mean		Standard Deviation
Entrepreneurial Innovation	4.40		2.37
Male Students	4.42		2.52
Female Students	4.39		2.29
Entrepreneurial Achievement	6.42	1.40	
Male Students	6.60		1.36
Female Students	6.33		1.43
Entrepreneurial Personal Control	5.41	2.52	
Male Students	5.17		2.51
Female Students	5.52		2.52
Entrepreneurial Self Esteem**	5.66	1.10	
Male Students	5.44		1.00
Female Students	5.81		1.14
Ingenuity**	23.51		4.16
Male Students	24.10		3.61
Female Students	23.16		4.39
Perseverance	31.66	4.00	
Male Students	31.97		3.86
Female Students	31.47		4.10
Variety Seeking	34.37	4.10	
Male Students	34.66		4.13
Female Students	34.20		4.08
Strong Judgment	32.59	5.16	
Male Students	33.16		4.86
Female Students	32.28		5.34

**Significantly different at $p < .05$.

In order to begin to assess the degree to which these four personality constructs are related to the entrepreneurial attitudes of interest, bivariate correlations were computed for each of the attitudes with each of the personality variables for both nationalities. Table 2 shows the results of these analyses, both at the sample population level, as well as broken down by gender. Support for our hypotheses was mixed. Whereas entrepreneurial

achievement was indeed positively related with all of the personality constructs examined, the other entrepreneurial orientation scales were not as consistent. In particular, entrepreneurial self esteem showed relationships that were the exact opposite of what was hypothesized; it had a significant negative correlation with each of the personality constructs. Entrepreneurial innovation displayed significant positive correlations with strong judgment, but a

negative relationship to ingenuity and no relationship to perseverance or variety seeking. Entrepreneurial personal control was only significantly related to one personality variable – strong judgment.

Table 2. Correlations between Entrepreneurial Attitudes and Personality Constructs.

	Ingenuity	Perseverance	Variety Seeking	Strong Judgment
Entrepreneurial Innovation	-.201**	.010	-.039	.263**
Male Students	-.131	.016	.081	.346**
Female Students	-.239**	.008	-.114	.218**
Entrepreneurial Achievement	.310**	.337**	.308**	.274**
Male Students	.333**	.344**	.307**	.235*
Female Students	.282**	.326**	.299**	.287**
Entrepreneurial Personal Control	-.070	.051	.028	.220**
Male Students	-.305**	-.058	-.034	.273**
Female Students	.047	.117	.068	.210**
Entrepreneurial Self Esteem	-.353**	-.244**	-.251**	-.134*
Male Students	-.296**	-.300**	-.158	-.043
Female Students	-.362**	-.208**	-.292**	-.159*

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

DISCUSSION

Contrary to expectations, all four of the personality constructs were not found to be significantly correlated with all four of the entrepreneurial attitudes of interest. Strong judgment appears to be the personality construct with the greatest relationship to the entrepreneurial attitudes, as it was related to all four. However, all of the personality variables were found to be associated with at least two entrepreneurial attitudes.

Judgment is an important personality construct as it plays a critical role in decision making. Successful entrepreneurs are often viewed as very good decision makers, particularly in an environment of uncertainty, and as was pointed out by Shook, Priem, and McGee (2003), strong judgment is manifest in every stage of the venture creation process. Sound judgment

can allow entrepreneurs to succeed in situations where others are unable. As suggested by Shane (2003), entrepreneurs seem to have the special ability to identify opportunities that others cannot recognize, though at times they can make judgments before the opportunity is fully evaluated (Busenitz, West, Sheppard, Nelson, Chandler & Zacharakis, 2003).

While judgment was positively correlated with personal control, it was found to have a negative relationship with self esteem. Baron (2000) reports that while entrepreneurs may be less inclined toward counter-factual thinking than others, this does not always promote venture success nor a positive outlook. Hence, while others may be more inclined to rely upon heuristics when recalling past initiatives – and thereby shielding their personal self-esteem, entrepreneurs may be more likely to

examine past failures in great detail and this may impact their self esteem in a negative manner. Kirzner (1973) suggests that a primary role of an entrepreneur is to identify profitable opportunities, which requires strong judgment based on a thorough analysis of the situation. Entrepreneurs need to be aware that time and resource pressures may cause the development of cognitive shortcuts that can lead to errors in judgment (Busenitz et al., 2003).

Interestingly, in addition to strong judgment, the other three personality variables were also negatively correlated with entrepreneurial self esteem, particularly among female students. On the surface this may seem like a contradiction since individuals with high entrepreneurial self esteem are generally confident in their abilities. However, when examined closer it may indicate that those with self esteem have a more realistic understanding of the expectations associated with business ownership, and a keen understanding of the entrepreneurial process. Within the sample, self esteem scores would drop as ingenuity, perseverance, variety seeking, and judgment scores increased. This may indicate that these factors supersede self esteem and entrepreneurial success requires a great reliance on a creative thought process that allows for the best judgment of business opportunities.

This can also help explain why all four personality variables were significantly related to entrepreneurial achievement. As pointed out by Sternberg (2004), successful entrepreneurs often have a blend of analytical, creative and practical intelligences. Busenitz and Arthurs (2007) argue that entrepreneurs need both entrepreneurial and dynamic capabilities in order to identify business opportunities and arrange organizational resources to take advantage of these opportunities. Achievement is often viewed as the ultimate

sign of business success and requires the proper mix of entrepreneurial talent and temperament.

In regards to gender, some interesting findings emerged. First, male students scored significantly higher in ingenuity, while females had higher self esteem. While female students in the sample displayed a high level of confidence, their lower ingenuity scores may indicate that they are not as creative as their male counterparts, though it is somewhat tempered by the fact that innovation scores were consistent. Research has long linked creativity and innovation with enterprise development (Schumpeter, 1935; Thompson, 2004), and many entrepreneurs have been lauded for their ability to improve innovation in the marketplace (Bosma & Harding, 2006). However, past research has shown that women are much more inclined to start retail and services businesses, which tend to have greater failure rates than other sectors (Brush & Chaganti, 1999). Although Robb (2002) and Marlow and Patton (2005) suggest that this type of industry segregation is often due to the resource constraints faced female entrepreneurs, it may also result from personality differences between men and women.

Fortunately, what may be our most significant finding is the lack of great differences between male and female students. Despite some gender differences, more similarities existed on both attitudinal and personality scores. Although past research has shown that women may be less confident in their entrepreneurial skills and generally less likely to actually start a business (Allen, Langowitz & Minniti, 2007), hopefully change is on the way. Our findings reinforce Brush's point (1998) that differences related to gender alone are not conclusive and that a better understanding of entrepreneurial success requires consideration of the combination of

personality traits, attitudes, and outside factors such as economic necessity. Perhaps women, especially young adults, are just as inclined to start a business and will do so in the future, particularly as they are exposed to a greater number of successful role models.

Implications and Future Research

A greater insight into the entrepreneurial temperament of college students can be used to develop effective entrepreneurship education programs, whether these programs are offered in a College of Business or through continuing education courses at local community colleges. As suggested by Katz (2007), entrepreneurship education can increase one's competency and ability to become a successful business owner. Similarly, research shows that entrepreneurial cognition (Palich & Bagby, 1995), talent (Thompson, 2004) and perspective (Kuratko, 2005) can be improved through education and training programs. These programs, particularly ones with experiential activities, can help enhance students' self-efficacy towards entrepreneurship and allow them to view business ownership as a viable option (Florin, Karri & Rossiter, 2007). Many young adults are interest in entrepreneurship and those with post-secondary academic experience are more likely to actually engage in entrepreneurial activities (Minniti, Bygrave & Autio, 2005).

Psychological and attitudinal characteristics play an important role in understanding the entrepreneurial process and can influence the number of would-be entrepreneurs (Hisrich, Langan-Fox & Grant, 2007). Successful entrepreneurs must be confident, creative, and possess strong judgment to adapt to the changing markets, products, and technology in the current business world. An individual's personality is often a pre-cursor to one's beliefs and attitudes, and a better understanding of the

relationship between personality and attitudes known to predict entrepreneurial success can provide guidance for better training and mentoring young adults interested in entrepreneurship.

Research has shown that 80% of would-be entrepreneurs in the U.S. are between the ages of 18-34, making this a very important group for the future success of the national economy (Kuratko, 2003). The constantly changing business environment, in both the U.S. and in the global marketplace, will require the next generation of business professionals to utilize intellect, ingenuity, and forward thinking to develop appropriate strategies that capitalize on entrepreneurial opportunities. Future studies should continue to explore possible links between attitudes and personality in order to develop a more thorough entrepreneurial profile of the new generation of emerging entrepreneurs. This information can then be used to help better prepare them for the challenges of entrepreneurial growth and development. Ultimately a comprehensive model of "who" the entrepreneur is – one that combines individual differences (gender, nationality, education, prior exposure), psychological attributes (personality, attitudes), social attributes (social intelligence, social competence, support networks), and cognitive attributes (decision making styles, use of heuristics, information processing) – in a situational framework should be the goal of entrepreneurship research in academia.

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A MULTI-NATIONAL EXAMINATION OF FAMILY-MEMBER AND NON-FAMILY-MEMBER MANAGERS IN FAMILY BUSINESSES

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ABSTRACT

This study investigated, in a multi-country context, the inclusion of family-member managers and non-family-member managers in family businesses, and the relationship of this variable to certain management activities, styles and characteristics. A large sample (n=593) of family businesses was generated from six countries (Croatia, Egypt, France, India, Kuwait and the United States), countries with significant differences in cultures, economies, levels of entrepreneurial activity, and family business demographics. Results of statistical testing indicate a variety of changes in management attributes as the proportion of non-family-member managers increases in family firms. Implications for practitioners, consultants and researchers are presented.

INTRODUCTION

This study was conducted with the purpose of investigating family businesses with regard to the degree to which such firms employ non-family members as managers. How does the percentage of non-family-member managers to family-member managers in a family firm relate to various managerial activities, styles and practices of that firm?

Earlier research into the issue of family-member managers (FM's) versus non-family-member managers (NFM's) in family businesses has been limited. Chua, Chrisman and Sharma, with very strong empirical experience in the field of family business, concluded that "issues related to non-family managers [in family firms] have received very little attention by researchers" and "there is definitely a gap in our understanding of the role played by non-family managers in the family business" (2003, pp. 102, 103). Chrisman, Chua, and

Sharma (2005) stated that many questions remain unanswered and much interesting research remains to be done to determine how family involvement affects firm performance. Ensley and Pearson (2005) concluded that family business research needs to identify the nature of family involvement in top management teams, in response to which Nordqvist (2005) agreed that this is a breach in the literature that has not received much attention. Chrisman, Chua, and Steier also agreed with the need to better understand top management teams in family businesses as "this is a topic of great importance since the decisions of top managers may determine the extent to which a family business obtains distinctive familiness and superior economic performance" (2005, p. 241).

There is also a growing interest in investigating management characteristics and activities multinationally. Oviatt and McDougall (2005) called analyzing

entrepreneurial behavior in multiple countries and across national boundaries rich in opportunities and having possibilities to move such research from its infancy into high growth.

This current study is therefore important in that it brings new empirical research to these issues of FMs and NFM's in family business management, and that it does so in a multinational context. Furthermore, the results of this research are not only of value to researchers, but should also be of value to consultants to family businesses and to family business owner/managers themselves, both of whom may gain insight into the possible impact of having non-family managers in family businesses.

LITERATURE REVIEW

Although most definitions of a "family business" include the criterion of the prevalence of family members in the management team, an extensive review of the family business literature has found few academic papers or journal articles that investigated the impact of NFM's on the management activities, styles and practices of family firms. The papers and articles that did touch on this topic usually did so in a tangential manner and/or in a conceptual or anecdotal method, rather than via empirical investigation. Somewhat more frequently found, but still few in number, were papers and articles that compared family businesses and non-family businesses, an issue quite different in nature. Still another related but again a different issue is the use of non-family-members on the corporate or advisory *boards* (but not in the *management*) of family firms, a topic occasionally investigated and the (largely anecdotal and conceptual) focus of an entire issue in the first year of publication of the *Family Business Review* (1988 v.1 XX3).

Still, some prior studies did indeed investigate FM's and NFM's in family firms. Several analyses have focused on the issue of how a family firm CEO should adapt to working with non-family managers, and the difficulty of delegating managerial responsibilities to non-family-members (Firnstahl, 1986; Goffe & Scasse, 1985; Hofer & Charan, 1984; Mathews 1984; Perrigo, 1975). The reverse issue - how to facilitate the adaptation by the non-family-manager to the family firm's culture and goals - was considered by Dyer (1989) and by Mitchell, Morse and Sharma (2003), who pointed out that NFM's must adapt to the family firm and need assistance in doing so.

Other investigations regarding FM's and NFM's focused on compensation for NFM's (McConaughy, 2000; Poza, Alfred & Maheshawi, 1997), and on retention of NFM's (Ward, 1997). And Gallo and Vilaseca (1996) and Dorgan, Dowdy and Rippin (2006) looked at the possible performance benefits of family firms with NFM's versus those without.

A study by Chua, Chrisman and Sharma (2003) emphasized the relevance of Agency Theory in explaining and understanding the relationship between FM's and NFM's in family firms. They empirically investigated the percentage of NFM's in the management team of a family firm and its relationship to the FM's concerns about their relationships with NFM's. Among their conclusions was that past assumptions of zero or low agency costs in family firms require further thinking, as these costs are more complex and asymmetric than previously supposed.

Yet another group of (largely anecdotal and conceptual) studies relate the advantages and disadvantages of family-members versus nonfamily-members as managers of family firms. Some studies see positive benefits of FM's, such as extraordinary commitment (Donnelly, 1964;

Horton, 1986), more warm, friendly and intimate relationships within the management team (Horton, 1986; Staff, 1981), the potential for deep firm-specific tacit knowledge, often based on early involvement in the firm (Lane & Lubatkin, 1998), governance advantages (Carney, 2005), and the creation of a synergy in the top management team due to higher cohesion, potency, and positive task conflict (Ensley & Pearson, 2005). Marcus and Hall (1992) see a preponderance of FM's as benefiting the firm's service providers, and Goody (1996) concludes that such preponderance facilitates firm growth as members of succeeding family generations are available to open new branches of the company.

However, some other studies see a downside to a firm's managers being members of the same family. Limiting management positions primarily to family members may lead to hiring sub-optimal people who can not be easily dismissed (Dunn, 1995; Whyte, 1996), and can lead to greater conflict because of non-merit-based promotion criteria (Leyton, 1970; Wong, 1988). Also, qualified nonfamily managers may avoid family firms where their potential for growth, promotion and remuneration is hampered (Covin, 1994a; Coven, 1994b; Donnelly, 1964; Fiegener et. al., 1996; Horton; 1986; Stewart, 2003). And Dhaliwal (1998) and Song (1999) note that in many cultures, kinship criteria in choosing managers reduce the managerial opportunities and role for female members of the family.

Another group of studies investigate the negative impact of NFM's in family firms. Several researchers conclude that the presence of NFM's can result in "creative destruction" when NFM's create too much firm growth and thus weaken family managerial and/or financial control (Morck & Yeung, 2003; Morck, Strangeland &

Yeung, 2000; Olson, 1963, 1982, 2000). And the fear of such "creative destruction" may in turn lead to FM's blocking or discouraging NFM's creativity and innovation and thus stifle desirable company growth. Other studies have found that a mixture of FM's and NFM's in the same firm may lead to greater conflict within the managerial team (Schultz et. al., 2001, 2003).

Therefore, because there are both positive and negative conclusions about the inclusion of NFM's in family firms, several writers focus on the need to socialize new NFM's, clearly communicate to them existing family values and objectives, and tie the interests of the NFM's to the firm, for example via stock ownership and board membership (Astrachan & Kolenko, 1994; Berenbeim, 1990; Dyer, 1989; Gubitta and Gianecchino, 2002; Sirmon & Hitt, 2003).

Finally, some family business researchers have focused on developmental issues or the stages of evolution of family business growth. Gersick et. al. (1997) presents a four-stage model of family firm development, and Peiser and Wooten (1983) focus on the life-cycle changes in family businesses. As family firms grow, these writers see a likelihood of bringing greater numbers of nonfamily managers into the company. Thus, the body of literature specifically relating to FM's and NFM's in family firms provides limited empirical evidence and little consensus or clear conclusions.

HYPOTHESES

As explained above, the objective of this study was to investigate family businesses with regard to the degree to which such firms employ non-family-members as managers. How does the percentage of non-family-member managers to family-member managers in a family firm relate to the managerial activities, styles and

practices of that firm? The hypotheses used for this current study are based on the hypotheses used in previous studies by XXXXXXXX and XXXXXXXX (2004, 2005a, 2005b) of family firm management activities, styles and practices, which in turn derived from findings and propositions developed by earlier researchers who investigated family firms. Due to the limited prior empirical research with this specific FM vs. NFM focus, and the exploratory nature of this current research project, a large number of hypotheses involving a wide variety of family business issues have been chosen for testing, rather than focusing on a few specific managerial issues. Thus the significance of the various hypothesis test results may indicate that some factors are more worthy of further research and analysis than are others.

The prior research from which these hypotheses are derived generally did not specifically focus on FM's versus NFMs. Rather, these *various* research studies dealt with other aspects of family firm *growth* – measured in particular by *generations*, and also by *age*, *size*, or *stages*. Because family firm growth may sometimes be accompanied by a rising proportion of NFMs, these studies were used to identify family business variables worthy of investigation in this current study but not to generate specific hypotheses of relationships between the proportion of NFMs and management attributes. For this reason, and because there are minimal and mixed prior findings with regard to FM's and NFM's in family firms, *the null hypothesis is used throughout*. The following paragraphs briefly provide the bases for each hypothesis.

Nelton (1998) investigated gender issues in family firms and concluded 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. Focusing on societal trends rather than family firm generational issues, 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). While this is an important variable for family businesses, no prior studies have linked this issue to the variable of FMs versus NFMs. Thus:

H1. The percentage of non-family-member managers in a family firm will not have a significant relationship to the percentage of women family members involved in the operations of the firm.

The distribution of decision-making authority in the firm is another aspect of family business behavior. 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 and postulated that subsequent-generation family firms are more likely to engage in team management, with 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. Thus:

H2. The percentage of non-family-member managers in a family firm will not have a significant relationship to the use of a "team-management" style of management.

Interpersonal dynamics, including conflict and disagreement among family members, has been a major focus of family firm research (Kellermanns & Eddleston, 2004). Conflict can exist in younger, first-generation family firms, when siblings,

spouses or other relatives participate in management and/or ownership, and conflict can also arise between members of different generations in older, subsequent-generation family firms. Beckhard and Dyer (1983) found that conflict among family members increases with the age of the firm and the number of generations involved. Conversely, Davis and Harveston (1999, 2001) concluded that family member conflict increased only moderately as firms grew and moved into the second-generation stage, but there was a more sizable increase in further growth from second to third-generationXX Thus:

H3. *The percentage of non-family-member managers in a family firm will not have a significant relationship to the occurrence of conflict and disagreement among family members.*

Another major focus of the literature on family firms has been successioXX 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 next-generation family members often receive, and thus the need for, and importance of, succession planning (Davis, 1983; Handler, 1994; Upton & Heck, 1997). Dyer (1988) 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 successioXX Fiegenger 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*.

Some of the earlier family business studies have dealt with various aspects of succession, but none have specifically investigated succession planning and practices in relationship to FMs versus NFM. Still, given that the importance of succession has been well established and publicized, and that family firms often experience the trials of succession as they grow, there may be a relationship between the proportion of NFMs and succession planning. Thus

H4. *The percentage of non-family-member managers in a family firm will not have a significant relationship to the formulation of specific succession plans.*

A number of earlier researchers of family firms have postulated that, as these firms grow, they also progress from one style of management to another. Informal, subjective and paternalistic styles of leadership become more formal, objective and “professional” (Aronoff, 1998; Cole & Wolken, 1995; Coleman & Carsky, 1999; Dyer, 1988; Filbeck & Lee, 2000; McConaughy & Phillips, 1999; Miller, McLeod & Oh, 2001; Schein, 1983).

“Professional” management may involve the following: (a) the use of outside consultants, advisors and professional services, (b) more time engaged in *strategic* management activities, and (c) the use of more sophisticated financial management tools. These conclusions lead to three hypotheses:

H5. *The percentage of non-family-member managers in a family firm will not*

have a significant relationship to the use of outside consultants, advisors and professional services.

H6. The percentage of non-family-member managers in a family firm will not have a significant relationship to time spent engaged in strategic management activities.

H7. The percentage of non-family-member managers in a family firm will not have a significant relationship to the use of sophisticated methods of financial management.

Still another issue of interest in the investigation of family business is “generational shadow” (Davis & 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 values, direction and standards for subsequent firm managers. Kelly et al. (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. If “generational shadow” and “legacy centrality” are valid components of the family business system, then it is of value to investigate whether the increased presence of MFMs will related to stronger or weaker “generational shadow” or “legacy centrality.” Thus:

H8. The percentage of non-family-member managers in a family firm will not have a significant relationship to the degree of influence by the original business objectives and methods of the founder.

Although most family firms are privately owned, some are not. As family 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 situatioXX And even publicly owned companies can continue as “family businesses,” if management or financial control is maintained by the family. In the United States, McConaughy (1994) found that 20 percent of the *Business Week 1000* firms are family-controlled, while Weber and Lavelle (2003) report that one-third of *S & P 500* companies have founding families involved in management. Thus:

H9. The percentage of non-family-member managers in a family firm will not have a significant relationship to management’s consideration of “going publiXX”

COUNTRY COMPARISONS

As explained earlier, data relating to Hypotheses 1-9 were gathered in Croatia, Egypt, France, India, Kuwait, and the United States. These six countries have different sized populations, different cultures, different economic characteristics and histories, and different *GEM* rates of entrepreneurial activity (Croatia = 3.6, France = 3.2, India = 17.9, United States = 10.5. Higher scores indicate greater entrepreneurial activity in the business populatioXX *GEM* rates have not been calculated for Egypt or Kuwait). By combining data from these six countries, this study investigates a broad multinational

family firm sample which combines a variety of family business types and contexts.

METHODOLOGY

Samples

Because of varying difficulties in identifying and contacting family businesses in the various countries, the survey methodologies were somewhat different in each.

In France and India, large survey mailings to identified family businesses were possible (France = 800, India = 312), and net response rates for France of 14.6 percent (n=116) and for India of 13.6 percent (n=40) were obtained.

In Croatia, far fewer (70) family firms were identifiable, but an intensive contact effort by mail, telephone and personal visit resulted in a response rate of 71.4 percent (n=50). A similar data collection in Kuwait produced a 100 percent response rate (n=81).

In Egypt, the survey was sent through the family business network of the Egyptian International Trade Point (EITP) and the Egyptian Ministry of Trade and Industry. Six hundred (600) family business received copies of the survey. 172 businesses responded to the survey, but 25 were found to be non-family businesses or otherwise not appropriate for sampling. This resulted in 147 usable survey responses, providing a response rate of 25.6%.

In the United States, survey instruments were randomly mailed or hand-delivered in 2001 to a variety of New York and Massachusetts companies, which had been identified as family firms (primarily in listings of "family businesses" in local business newspapers). There were 822 surveys mailed or delivered; of these 272 were no longer at the address or responded that they were not family firms. A total of 149 usable returned surveys provided a

return rate of 27.1 percent. To increase the sample size and to test for non-response bias in the US, after a few months a follow-up request for surveys was made, and 12 more questionnaires were returned and used for a total of 161, providing a final return rate of 28.6 percent. Analyses of some of these countries' data were previously published by XXXXXXXX and XXXXXXXX (2004, 2005a, 2005b).

Identifying family firms from various listings is consistent with that of other family business researchers, who have been constrained by the lack of national databases of family firms (Chua, et al., 1999; Teal, Upton, & Seaman, 2003). This is an acceptable sample size and response rate for family business, as it has been reported that 62 percent of prior family business studies included no sample at all, or a sample with less than 100 family businesses, and 66 percent of these were convenience samples (Bird, Welsch, Astrachan & Pistrui, 2002). In three highly-rated small business and entrepreneurship-oriented journals (*Entrepreneurship Theory and Practice*, *Journal of Business Venturing*, and *Journal of Small Business Management*) around one-third of the articles had a response rate of less than 25 percent (Dennis, 2003).

Measures and Statistical Analysis

With correlations, the results are the same regardless of which variable is dependent or independent. Thus, for statistical testing of all nine hypotheses the dependent variable is the percentage of non-family-member managers, which is a ratio measure. The nine independent variables in hypotheses testing are interval or ratio levels of measures. See Table 2 for a listing of variables with a brief explanation of operationalization and measure for each variable. To conserve space in this table, all hypotheses are denoted by summary

phrases. In the actual survey instrument, the questions or statements used to collect the data were more substantial. Likert interval scales were used: "Describes our firm" 7-1 "Does Not Describe Our Firm."

Based on level of measures, Hypotheses 1-9 were tested using Pearson Correlations. There were nine correlations per country, for a total of 54 correlations. Higher level statistical regression is not appropriate because the purpose of the study was to determine relationships between variables, not to predict the percentage of managers based on the nine independent variables.

RESULTS

Descriptive Statistics

See Table 1 for a summary of descriptive statistics discussed below. Also, see Table 2 for a comparison of the means for each generation for their dependent variable

The company size categories used in Table 1 derive from European Community guidelines (European Union, 2004).

Hypothesis Testing

The results of the statistical testing are presented in Table 2. There were seven significant correlations between the percentage of non-family-member managers and the nine variables. Four correlations indicate a positive relationship and three correlations indicate a negative relationship:

Positive Relationships:

H5. As the percentage of non-family-member managers increases, so does the use of professional advisors ($p = .000$).

H6. As the percentage of non-family-member managers increases, so does the amount of time spent in strategic planning ($p = .006$).

H7. As the percentage of non-family-member managers increases, so does the use

of sophisticated financial methods ($p = .000$).

H9. As the percentage of non-family-member managers increases, so does the consideration of going public ($p = .000$).

Negative Relationships:

H2. As the percentage of non-family-member managers increases, the use of a team-management decision style decreases ($p = .054$).

H3. As the percentage of non-family-member managers increases, conflict and disagreement decreases ($p = .026$).

H8. As the percentage of non-family-member managers increases, the influence of the original founder decreases ($p = .019$).

Also:

With regard to two of the tested variables, no significant correlations were found:

H1. There was no significant relationship between the percentage of non-family-member managers and the percentage of women involved in the operation of the business.

H4. There was no significant relationship between the percentage of non-family-member managers and the formulation of specific succession plans.

Analysis Between Countries

A full statistical analysis of similarities and differences in results *between* the six countries is not presented here, as it is beyond the scope of this article. In summary, only minor FM versus NFM differences between the various countries were found, none of which are worthy of discussion. On the whole, the findings in each country were largely similar to those in each of the other countries.

IMPLICATIONS

Most of the relationships identified by this study seem logical, even if there are few prior quantitatively-tested studies for

support and confirmatioXX As NFMs are brought into a family business, it seems logical that they will bring into the firm more formal and professional styles of management, the use of professional advisors, an increase in strategic planning, and the use of more sophisticated financial methods. With more NFMs and their thinking and practices entering the firm, the remaining family owner-managers may be less “protective” and be more open to going public and having non-family ownership.

Conversely, as the proportion of FMs decreases, it seems reasonable that family-oriented conflict and disagreement will decrease and that the incoming NFMs will feel less of the founder’s influence. Also, NFMs do not have the family-based bonds that FMs have, and may not see a need to maintain these bonds and collegiality through team-management behavior.

As for the percentage of women, it is difficult to see how the issue of FMs versus NFMs would influence this factor. And with regard to the formulation of succession plans, “logic” does not lead one to expect either a positive or negative correlation with the proportion of NFMs.

This train of research should be of both interest and value to practitioners, consultants and researchers. The findings of this study, combined with comparable and derivative future studies, should enable family business owner/managers to better understand the possible impacts of bringing non-family managers into a family business. Would there be likely changes in management activities, styles and characteristics, and would these changes be desirable and beneficial or dysfunctional for the firm? This is also a question that consultants to family businesses must consider as they analyze such firms and make recommendations regarding alternative strategies for growth.

For researchers in the field of family business, these findings build upon earlier and generally non-quantitative studies, provide some results that future research can focus on, replicate, and build upon, and may indicate some specific factors especially worthy of further investigatioXX

Furthermore, this research raises many ideas for future research which, for example, might focus on factors not considered in this study, such gender issues, the varying levels of profit motivation among family firm owners, or the influence of different national cultures upon family business management practice. The potential scope for future research relating to family-member and non-family-member managers in family business is indeed extensive.

CONCLUSIONS

Through its investigation of family-member managers versus non-family-member managers in family firms, this exploratory study begins to fill an identified gap in the family business literature. As discussed earlier, the limited prior writings on this specific family business issue reached few conclusions, with some writers postulating that NFM’s strengthen a family firm (Coven, 1994a, 1994b; Donnelly, 1964; Dunn, 1995; Fiegenger et. al., 1996; Horton, 1986; Leyton, 1970; Stewart, 2003; Whyte, 1996; Wong, 1988) and other researchers concluding the opposite (Carney, 2005; Chua, Chrisman and Sharma, 2003; Donnelly, 1964; Ensley & Pearson, 2005; Goody, 1996; Horton, 1986; Lane & Lubatkin, 1998; Marcus & Hall, 1992; Staff, 1981). As most of these earlier writers reached their deductions and findings through non-quantitative analyses, this study’s quantitative methodology adds to the literature. As this research focus continues to be developed by scholars, this combination of qualitative and quantitative analyses should in combination allow us to

better understand this issue of FM's versus NFM's (Guillén, 1994).

The limitations of this study primarily involve the varying sizes and characteristics of the samples. The six country samples range from 159 to 40 and vary with regard to their compositions. Ideally, the six separate country samples would have been larger and more equal in size but, as noted earlier, the availability of data for family business research is limited, and most prior studies have also depended upon samples with less-than-perfect characteristics. The authors look forward to future studies of this nature.

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Table 1
Descriptive Statistics

Variable	1GFF (n = 193)	2GFF (n = 268)	3GFF (n = 132)	Total (N = 593)
Generation (% of N)	33%	45%	22%	100%
Years in business (mean/s.d.) (median)	16/10	27/18	60/35	31 23
Number of employees (mean/s.d.) (median)	111/480	443/3,695	875/2,730	431/2,820 ¹ 35
(micro 0-9)	49	41	20	110
(small 10-49)	87	104	42	233
(medium 50-249)	40	80	35	155
(large 250 +)	17	43	35	95
Service (%) vs. Manufacturing	50% 50%	47% 53%	56% 44%	50% 50%
Ownership (corporation %, Partnership, Sole proprietorship)	44% 29% 27%	46% 25% 29%	70% 18% 12%	50% 25% 25%

¹ The large deviations are due to the sample including 23 firms (4%) of the sample having more than 1,000 employees; nine firms with 1,000-2,000 employees, five with 2,300-3,000, two with 3,500-4,000, three with 5,000-6,000, and one with 10,000, 12,000, 22,000, and 60,000.

Table 2
Correlations Hypotheses tests (N = 593)

	<i>Mean/s.d.</i> (frequency)	<i>Co-efficient</i>	<i>P-Value</i>
Dependent Variable: Percentage of Non-family managers	31.28/32.49		
Independent Variables:			
H1. % of women involved in operation of business (percentage of women)	21.4/27.46	-.005	.901
H2. Use of team-management decision style (7-1)	4.48/2.23	-.079	.054
H3. Occurrence of conflict and disagreements (7-1)	2.42/1.85	-.091	.026
H4. Formulation of specific succession plans (7-1)	3.80/2.41	-.004	.920
H5. Use outside advisor/professional services (7-1)	4.25/2.26	.227	.000
H6. Time spent in strategic planning (7-1)	3.46/1.91	.113	.006
H7. Use sophisticated financial mgt methods (7-1)	4.08/2.16	.287	.000
H8. Influence of original founder (7-1)	4.60/2.11	-.096	.019
H9. Consider going public (7-1)	2.10/1.97	.264	.000

(7-1) Likert scales “Describes our firm” 7 6 5 4 3 2 1 “Does not describe our firm.”

A THREE LEVEL BUSINESS PERFORMANCE MODEL: AN EMPIRICAL TEST IN CHILE

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ABSTRACT

This study developed an ordered probit model to predict small and medium size enterprise performance in Chile as failed, mediocre, or successful, which is more robust than the commonly used binary probit and logit models. The model variables that explain and predict levels of performance are: use of the Internet, starting with adequate capital, having good financial and accounting records and controls, using specific plans, having higher levels of education, partners, parents owning a business, and marketing the firm. The model is significant ($p = .000$) and all the variable coefficients, except education, were significant. The sample includes 403 small businesses classified as: 158 failed, 101 mediocre, and 144 successful firms. Results support the model's validity at predicting a group of businesses as failed, mediocre, or successful more accurately than random guessing more than 99% of the time. The model can benefit both the would be and current entrepreneurs; those who assist, train and advise them; those who provide capital and supplies for their ventures; public policy makers; entrepreneurship and small business educators and researchers. Implications focus on improving success and avoiding failure of small businesses, and public policy recommendations in Chile are discussed.

INTRODUCTION

There is little doubt that new business ventures introduce a dynamic element into the economy and can make an important contribution to development (Fritsch, 2008). Entrepreneurs have a very important function in the economy; they engender relatively much employment creation, productivity growth, and produce and commercialize high-quality innovations (van Praag and Versloot 2007). However, most firms die in the first few years (Cressy 2006). Therefore, to increase the likelihood of creating a successful business is a main issue for those who dare to bear the risk of starting a new venture, and understanding why firms fail and succeed is crucial to the stability and health of the economy (Carter, Williams, and Reynolds 1997; Pompe and Bilderbeek 2005).

Predicting entrepreneurial fate is an important area of research (Davidsson and Klofsten 2003; Pompe and Bilderbeek 2005; Westhead, Wright, and Ucbasaran 2001) because success versus failure prediction research benefits both the would be and current entrepreneurs; those who assist, train and advise them; those who provide capital for their ventures; their suppliers and creditors; researchers; and public policy makers (Dennis and Fernald 2001). Thus, evidence providing insight for government and academic institutions may aid in their efforts to provide resources that may help reduce the incident of bankruptcy (Carter and Van Auken 2006). However, discovering which factors or practices lead to business success and failure is an unfulfilled purpose of small business research (Rogoff, Lee, and Sub 2004). There is incomplete information on firm entry and

survival (Acs and Mueller 2008). Thus, scholars seek further research to answer such questions as: Why does one person actually succeed in starting a business, while a second person gives up? Which variables explain success (van Gelderen, Thurik and Bosma 2006)? Which business practices set successful firms apart from others (Fabling and Grimes 2007)? Is there a global robust success vs. failure prediction model (Lussier and Pfeifer 2001)?

This study address these questions and contributes to the business and management scientific fields by developing a rigorous success, mediocre, and failure prediction ordered probit model (which improves on the commonly used binary probit and logit models) that permits a better understanding of small and medium enterprises (SME) failure and success. It also provides implication as to how entrepreneurs can minimize the odds of failure and increase the likelihood of business success.

This study also contributes to the literature because, to date, no empirical success versus failure studies have been found that were conducted in Chile. There are few studies which formally assess the most efficient ways of helping SME in the long term. The few studies found are focused on determined economic sectors and use qualitative descriptive exploratory methodologies. So there is a need for empirical study in Chile (Yeyati and Micco 2007). This research with public policy implications can strengthen the SME sector, which would result in more jobs, better income distribution, a greater social inclusion and eventually it would lead to increased economic development.

LITERATURE REVIEW

Every entrepreneur starts a venture with hopes of succeeding. However, it can be found that each year in the USA there are

more than half a million startups, but almost the same number close every year, although not all closings are failures (Bates 2005). In Chile, less than 42% of small businesses survive five years and less than 50% survive 10 years (Cabrera, De la Cuadra, Galéovic, and y Sanhueza 2002).

To date, the research found in Chile is focused only to certain economic sectors, or to the use and incorporation of a particular tool as some specific technology. It is also possible to find some studies regarding small firm efficiency and in depth studies regarding their characteristics (Cabrera, et al. 2002; Silva, Majluf, and Paredes 2006; Yeyati and Micco 2007), but there is no reference with regard to the specific causes that lead these companies to succeed and fail. Suárez (1994) found that the successful companies are those that understand transformation as an integral process, and that there are three strategic imperatives for the success of a firm: efficiency, quality, and flexibility. The Vignolo (1998) study recognized that given a dynamic economic environment, small firm innovation is, in a strict sense, a survival requirement. Tironi (2003) found that the small exporting Chilean firms account for less than 6% of the country's value of exports, but in number, there are 2,380 firms out of a total of 6,009 exporting companies. Chocce and Úbeda (2006) found the need for more venture capital in Latin America.

Chile is a good place to conduct research because it has free markets in almost all economic sectors. Indeed, it is a pioneer in all economic reforms which have been followed by the other Latin American countries. Chile started economic and structural reforms one to two decades before the other countries, and it has the highest per capita income in Latin America (Inter-American Development Bank 2006). Chilean manufacturers have had plant

productivity improvements that can be attributed to a liberalized trade for the plants in the competitive import-sector. In many cases, aggregate productivity improvements stem from the reshuffling of resources and output from less to more efficient producers (Pavcnik 2002). However, there is a shift from manufacturing to service firms (Maldifassi 2003). One example is the banking industry in Chile, which has been the most efficient in the world at cutting costs (Elewaut, Lindenboim, and Scokin 2003).

Chile experienced high growth rates since the mid eighties helped by macroeconomic policies that provided continuity in business performance and investment. In 2006, its GNP was US \$151.8 million. GDP real growth rate during the last 11 years was 47% while retail growth has been 57%. The population of Chile is 16.5 million people, with a per capita GDP of US \$9,200. Chile's per capita income is the highest in Latin America, and when corrected with purchasing power parity, it is the second in the region, after Argentina. The average annual inflation rate over the last six years has been 2.5%. Investment rates on fixed capital for the last six years have been 21.5% of GDP. The average unemployment rate during the last ten years has been 8%, and the average growth of real wages has been 2% during the same period (Banco Central de Chile 2007). Chile became known as the "Latin America's Tiger," with an economy whose growth performance showed more in common with dynamic countries in Southeast Asia than its neighbors. Indeed, though not a member of the OECD, Chile outperforms some OECD countries in labor productivity (de Mello and Mulder 2005). In Chile, economic development and education have been linked together to the benefit of its citizens. The rapid assimilation and implementation of U.S.-oriented MBA programs have

arguably given Chile an edge over most, if not all, countries in Latin America in the creation of a well-educated and flexible workforce. The institutions of higher education in Chile seem to be more than willing to meet the challenge (Contreras and Ruff 2002).

SME are the main employers in Chile, and they face important challenges for their survival and development. Small firms have a potential that would positively increase the country's employment and growth. Although supporting and strengthening small business is the desire of all the Chilean political and economic sectors, important differences exist in the concrete proposals. Nevertheless, there is some common agreement that technology, innovation, entrepreneurship capacity, and education are important. Also, it is admitted that not only public policy is needed, but there is also a need to develop a culture where people are willing to start businesses, that is to say, to wake up the entrepreneurship spirit. These new firms face many hurdles, including limited access to the financial system resources, excess need of guarantees, lack of knowledge of the existing alternatives, scarce development of the capital seed industry, low capacity of commercial and financial management, and high bureaucracy to initiate business activities.

THE PROBIT MODEL

Selecting the model was the first step in the research process. Success and failure studies have been conducted (Carter and Van Auken 2006; Cooper, Dunkelberg, Woo, and Dennis 1990; Dennis and Fernald 2001; Pompe and Bilderbeek 2005; Reynolds 1987; van Gelder, de Vries, Frese, and Goutbeek 2007; van Gelderen et. al Bosma 2006; Westhead et. al 2001). The most extensive was the Lussier (1995) model because the study examined the efficacy of

15 variables identified from 20 prior studies, including Cooper et al. (1990) and Reynolds (1987). To be included in the Lussier (1995) S/F model, a variable had to have been included in a study that had at least three variables identified as contributing factors to success and failure. The Lussier (1995) model has been published in more journals (Lussier 1995, 1996a, 1996b; Lussier and Corman 1996; Lussier and Pfeifer 2000) and has been used to predict success and failure cross-nationally in Croatia (Lussier and Pfeifer 2001). The Lussier (1995) success versus failure (S/F) prediction model is also a nonfinancial model, which is more appropriate than financial models for small business research. Other models use sales as a predictor, and are thus not appropriate to use with startup business (Scherr 1989).

The availability of resources affects business (Fritsch, 2008). According to the Resource-Based View the ability of a firm to develop distinct capabilities enhances its ability to adapt to the changing

competitive environment and improves its survival prospects (Pérez & Castillejo, 2008). Lussier also uses resource-based theory as entrepreneurs make judgments about which resources are more or less important based on their expectations about the future of the venture (Lichtenstein and Brush 2001). The Lussier model is designed to determine which variables are more and less important to success and failure. Thus, the Lussier (1995) model was selected for testing in Chile. However, the Lussier (1995) model had multicollinearity problems. Thus, to improve the model, the correlated variables were eliminated, the Lussier variable minority was not relevant in Chile as there are so few minorities, so it was eliminated, and back in the early 1990s the Internet was not commonly used by small business, so this variable was added to update the model. See Table 1 for an explanation of the independent variables found in the probit model.

Table 1 Explanation (and measures) of independent variables

Internet (INT). Businesses that use the Internet will have a greater chance of success.

(Nominal level data 1 = used Internet and 0= does not use Internet).

Working Capital (WC). Businesses that start with adequate capital have a greater chance of success than firms that start undercapitalized.

(Likert scale 1 inadequate – 7 adequate capital).

Financial and Accounting information (INF). Businesses that keep updated and accurate records with adequate financial controls have a greater chance of success than firms that don't.

(Likert scale 1 poor – 7 good financial and accounting information).

Planning (PLAN). Firms that develop specific business plans have a greater chance of success than firms that don't.

(Likert scale 1 no planning – 7 very specific planning).

Education (EDU). People who start a business with a higher level of education have a greater chance of success.

(Likert scale 1 elementary – 6 graduate school).

Partners(PART). A business started by partners has a greater chance of success than a firm started by one person.

(Nominal 1 = started with partners 0 = started without partners).

Parents (PARN). Business owners whose parents own a business have a greater chance of success than owners whose parents did not own a business.

(Nominal 1 = parents owned a business 0 = parents did not own a business).

Marketing (MARK). Business owners that use marketing and sales efforts have a greater chance of success than owners than don't.

(Likert scale 1 little marketing - 7 great use of marketing).

DATA AND METHODS

Study design and sample

The primary methodology of this study was to adapt and update the Lussier (1995) survey research study in Chile. Survey research, particularly mail surveys, has been a staple in quantitative research on small business and entrepreneurship (Dennis 2003). In fact, an examination of four journals (ET&P, ISBJ, JBV, JSBM) revealed that one-third of the articles were based on mail surveys (Newby, Watson, and Woodliff 2003). The self-reporting questions were obtained from Lussier (1995) to collect data. A random sample of 1,600 small businesses was selected from the Chile Chamber of Commerce database, and the survey instrument was sent to the owner/CEO. There were 460 questionnaires returned resulting in a response rate of 28%. However, 57 had missing data, resulting in 403 usable questionnaires. All six major economic areas of Chile are included in the sample, making it a national sample, and thus, results may be generalized to the entire country.

MEASURES

The dependent variable measures business performance based on profitability as compared to industry average on a Likert scale from 1-7. The questionnaire asked owner/CEOs to identify their firm's level of profits compared to industry average. This 1-7 scale is a standard measure in Chile. People pass a school class with 4 or greater, and successful is achieved only with a grade that is greater than 5. In Chile, the performance appraisal system uses the same 1-7 scale. To get a "1-3" is poor performance, "4" is a mediocre performance everywhere, and a good performance is "5", a very good is "6" and "7" stands for excellent. To dichotomize the scale for the probit model, 1-3 rankings were classified as failures, 4 was categorized as mediocre being neither failed or success, and 5-7 was classified as successful.

As shown in Table 1, the probit model includes 8 independent variables to explain and predict business performance. Table 1 also lists the measurement level of

each variable. Five of the variables are measured on a 7 point Likert scale and all are ranked 1 low and 7 high: adequate working capital (WC), good financial and accounting information (INF), specific plans (PLAN), higher levels of education (EDU), and use of marketing (MRKT). Three of the variables were nominal level measures labeled 1 or 0: 1 = use of Internet (INT) 0 = do not use Internet, 1 = partners (PART) 0 = no partners, and 1 = parents owned a business (PARN) 0 = did not own a business.

Probit model analysis

Instead of using a bivariate logistic regression to test the model, as in the previous studies including Lussier (1995, 2000), Cooper et al. (1990; 1991), Carter and Van Auker (2006) and Reynolds and Miller (1987; 1989) an ordered probit methodology was chosen. Whereas bivariate logit/probit arbitrarily categorize a firm's result in one of the two groups; thus, deviating mediocre performances either to failure or to success. An ordered model permits one to further classify the dependent variable. In this sense, a multinomial model would be fine in the same way. However, multinomial logit/probit models have the disadvantage of what is known as the independence of irrelevant alternatives property (Greene 2000). A multinomial model ignores that the dependent variable categories have a preferred order, therefore losing efficiency of the estimators. Indeed, if one disregards that the dependent variable categories have an order, the mistake of not utilizing part of the available information is unavoidable. Therefore, the parameters estimation, still unbiased, will have higher standard errors.

Consequently, an ordered probit technique was chosen, which is appropriate for analyzing data faced to a dependent variable that answers to a scale where the

category only indicates the order, and the numbers together with the difference between them not revealing much. The main idea is that under this ordered response there exists a latent random variable continuously distributed which is represented by these interval values. The distribution parameters of the subjacent latent variable are estimated by Maximum Likelihood methods.

Thus, the model to estimate is (based on Table 1 variable labels):

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

INT, PART and PARN are dummy variables that can take the values of 0 or 1.

Suppose i stands for the firm that answers the survey, $i=1, \dots, n$, where n is the sample size. Let y_i be firm i response to the dependent variable assuming that it can only take the values 1, 2 or 3. Let the unobservable latent variable $y_i^* \in (-\infty, +\infty)$ represent the propensity to answer the question. Let x_i be the vector of relevant characteristics which explains the firm's performance. The ordered probit model is based on the assumption that y_i^* linearly depends on x_i , according to:

$$y_i^* = x_i' \beta + u_i, \text{ where } i=1, \dots, n \quad (1)$$

$$u_i \rightarrow n(0,1)$$

It is assumed that u_i is normally distributed between observations and is normalized with zero mean and unity variance. y_i^* is unobserved, but the relation between y^* and the observed variable y is:

$$\begin{aligned} y=1 & \text{ if } y^* < \kappa_1 \\ y=2 & \text{ if } \kappa_1 < y^* < \kappa_2 \\ y=3 & \text{ if } \kappa_2 < y^* \end{aligned} \quad (2)$$

The κ_J parameters $J=1,2$ are the unknown threshold parameters. β is a parameter vector. The y^* mean value $\beta'X$ depends on the explanatory variables and,

therefore, the complete distribution shifts when the value of any of those variables changes. Let $P_i(y)$ be the probability that the i -th firm response be y . This probability is:

$$\begin{aligned} P(y=1/x) &= P(y^* \leq \kappa_1 / x) \\ P(y=2/x) &= P(\kappa_1 < y^* \leq \kappa_2 / x) \quad (3) \\ P(y=3/x) &= P(y^* > \kappa_2) \end{aligned}$$

Thus, based on a y_i, x_i sample, $i=1, \dots, n$, the log of the maximum likelihood function is:

$$\text{Log}L = \sum_i \ln[P_i(y_i)] = \sum_i \ln[\Phi(\kappa_1 - x_i' \beta) - \Phi(\kappa_2 - x_i' \beta)] \quad (4)$$

Where $\Phi(\cdot)$ is the normal cumulative distribution.

Function (4) is maximized with respect to the elements in β and the threshold parameters κ through an iterative process yielding maximum likelihood estimators for all parameters and their asymptotic errors. The Maximum Likelihood estimation method accounts for the heteroskedasticity of variance(y/x) since it is based in the distribution conditional to x .

The model to estimate is:

$$Y_i = \beta_i X_i + u_i \quad (5)$$

With the slope parameters β_i and the threshold parameters κ_i it is possible to estimate the likelihood of a 1, 2 or 3 performance. Given the cumulative normal function $\Phi(\cdot)$, from (2) it is deduced that these probabilities are:

$$P(y=1/x) = \Phi(\kappa_1 - \beta' X) = 1 - \Phi(\beta' X - \kappa_1) \quad (6a)$$

$$P(y=2/x) = \Phi(\kappa_2 - \beta' X) - \Phi(\kappa_1 - \beta' X) \quad (6b)$$

$$P(y=3) = 1 - \Phi(\kappa_2 - \beta' X) \quad (6c)$$

$\beta' X$ is calculated with a group of specific values for X , usually the mean values, and with the estimated β . It can be verified that the probabilities (6a), (6b) and (6c) add up to 1. However, in most of the cases, the conditional expectation of y^* $E(y^* | x) = \beta' X$, is of little interest because y^* is an abstract construction. Instead, it is of greater interest for the researcher to focus on the response probabilities $P(y=j | x)$, which are known as the marginal effects:

$$\begin{aligned} \frac{\partial P(y=1|x)}{\partial x_i} &= -\Phi(\kappa_1 - \beta' X) * \hat{\beta}_i \\ \frac{\partial P(y=2|x)}{\partial x_i} &= [\Phi(\kappa_1 - \beta' X) - \Phi(\kappa_2 - \beta' X)] \hat{\beta}_i \end{aligned} \quad (7)$$

$$\frac{\partial P(y=3|x)}{\partial x_i} = \Phi(\kappa_2 - \beta' X) * \hat{\beta}_i$$

Note that the marginal effects add up to zero, since probabilities add up to 1. If β is positive, increasing one of the independent variables x_i , keeping the others constant, shifts the probability distribution to the right. In this case, $P(y=1 | x)$ should decrease and $P(y=2 | x)$ should increase as the probabilities distribution shifts to the right. Therefore, a positive value for β can correctly be interpreted as a positive relation between the variable of interest and the probability that $y=3$, firm success. This approach is not appropriate for evaluating the effect of a dummy variable. Dichotomy variables are analyzed by comparing the probabilities that result when the variable takes its two different values with those that occur with the other variables held at their sample means. See Greene (2000) for further details.

Regarding the cut point or threshold parameters interpretation, Daykin (2002) suggested that first, if the dependent variable measure shows that most firms are in either one extreme or the other (for example, very poor performance or very good

performance), one would expect that the threshold would be tightly bunched in the middle of the distribution, very close to one another. If, on the other side, firms appear to be more balanced, it would be expected that the cut point be widely dispersed.

Second, it could happen that the cut points adjust to the questionnaire wording, in order to obtain the dependent variable, and might be doubtful and hard to understand. If this is the case, one would expect that the middle threshold to be far apart, reflecting an indifference on the part of the respondents who may not understand the question. This is important, as the questionnaire wording can be improved between studies, and a contraction toward the middle might be a sign of improvement. In addition to probit regression analysis, descriptive statistics and test of mean and proportion differences between successful, mediocre and failed firms were also run.

RESULTS

Control variables

Control variables that affect performance include size (number of employees), age of the business, and industry (Lussier and Pfeifer 2001; Reynolds 1987; Shane 1996). Small firms are more likely than large firms to fail. In the sample, the average size, as measured by number of employees, of the failed firms was 17 (s.d. 31), of the mediocre firms was 17 (s.d. 25) and 30 (s.d. 51) for successful firms. The sample was based on SME and the means of successful, mediocre, and failed firms is not significantly different at the .05 level. Therefore, firm size should not bias the results. The age of a business also affects success or failure because new firms have a higher probability of failure than established businesses. New businesses often lose money. However, the mean age, with similar medians, of failed businesses were 14.24 (s.d. 11.3) years, 15.2 (s.d. 13.7) years for

mediocre firms and 15.16 (13) successful companies. Therefore, all groups are mature and the mean difference is not significant at the .05 level. Thus, age should not bias the results. Industry can also affect success, as more service and retail firms tend to have higher failure rates (Lussier 1996a, 1996b). However, all industry sectors were included in the sample; also, Chi-square testing found no significant differences between the successful, mediocre, and failed businesses by industry. Thus, there are relatively equal numbers of successful and failure firms by industry, and industry should not bias the results.

Descriptive statistics and test of differences

In addition to testing the model, the 8 variables in the model were tested for differences. Table 2 provides the descriptive statistics (mean and standard deviation, or percentage of the sample) for each variable. To test for differences, success, mediocre, and failed performance were used as the independent variable and each of the 8 variables in the model were used as the dependent variables. Chi-square was run for the three variables with dummy values. The one-way ANOVA was run to compare mean differences between the successful, mediocre, and failed firms for the other five interval level variables. The results of the test of differences between the successful, mediocre, and failed businesses supports the model. In all but three of the variables (education, partners, and parents), the mean or proportion percentage differences were significant, as seen in Table 2. The successful firms had a higher proportion using the Internet, they started with more working capital, they kept updated and accurate financial and accounting information, they developed more detailed plans, and they pursued marketing efforts.

Table 2 Descriptive statistics and test of differences

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

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

Although not significantly different, the successful business owners have a higher level of education. The lack of significant difference may be due to the fact that there is no straight correlation between

entrepreneurship and education. Examining the descriptive statistics, when starting business, the sampled entrepreneurs had an average of 2.9 years of college. Most respondents have undertaken entrepreneur

and management activities before their new venture. Those who worked at the employee level previously did so for an average of 8.5 years before starting their own business at the age of 34. Education variability among entrepreneurs is high. Some start a business with just an elementary school education, whereas others have completed graduate studies. Because there are exceptions with low levels of education, does not mean that education is not important. For example, Microsoft co-founder and Chairman Bill Gates did not finish college at Harvard, but most of his employees are highly intelligent college grads.

Ordered probit regression model test results

Ordered probit regression model test results are presented in Table 3. As shown, the model is significant and all the parameter estimates beta coefficients, except for education, are significant, and 5 of the 8 variables are significant at the .01 level. Thus, these variables are used to estimate their marginal effects. The ordered probit regression result testing the model -2 log likelihood (LL) was -805.15 and the Chi-square was 66.65, with the model significance level ($p = .000$). Results support the model's validity at predicting a group of businesses as failed, mediocre, or successful more accurately than random guessing more than 99% of the time.

Table 3 Ordered probit regression model test results

Model Parameter Estimates¹ Variables (N=403)	β	SE³
1. Internet	0.364	(0.135)***
2. Working capital	0.094	(0.041)***
3. Financial and accounting info	0.087	(0.039)***
4. Planning	0.059	(0.037)*
5. Education	0.059	(0.056)
6. Partners	-0.317	(0.131)***
7. Parents	-0.238	(0.125)**
8. Marketing	0.086	(0.038)***
K1	1.140	(0.264)***
K2	1.857	(0.269)***
Model Test Results		
-2 Log Likelihood	805.15	
LR (zero slopes)	66.653	
Model p value	0.000	
Scaled R Square ²	0.158	
Classification Results		
P(y=1/X)	37.9%	Failure
P(y=2/X)	27.9%	Mediocre
P(y=3/X)	34.2%	Success

¹ Coefficient significance levels are denoted by * (.10) ** (.05) *** (.01).

² *The scaled R-squared is a measure of goodness of fit relative to a model with only a constant term, computed as a nonlinear transformation of the LR test for zero slopes.

³ QML (Huber/White) standard errors & covariance

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

the X vector, instead of the mean values, the estimated probabilities are respectively 52%, 26% and 22% for success, moderate, and failed. From equations (7) one can obtain the marginal effects of the interval and dummy explanatory variables. Results are shown on Table 4.

Table 4 Marginal effects

Marginal Effects on Interval Variables

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

Marginal Effects on Dummy Variables

Internet

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

Partners

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

Parents

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

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

Limitations and further research

The model can be used to assess a firm's potential for success, and society can benefit in direct and indirect ways via the reallocation of limited resources toward higher potential businesses. However, there are other variables that may influence business performance that are not in the model. Thus, further research on the model is needed to increase the explanatory power of the model, which could also increase its predictive power.

Prediction models are an aid, not a replacement for, existing business venture decision-making techniques. The model is useful in conjunction with existing

techniques to improve decision making. The model does not provide numerical guidelines for variables distinguishing success from failure. For example, how much working capital is enough to improve the probability of success, and how detailed should plans be? Judgment is needed when applying the model. When the business is strong on some variables and weak on others, the judgmental assignment of a probability of success is more subjective. With mixed strengths and weaknesses among the variables, the other decision criteria previously used by entrepreneurs, managers, investors, lenders, and suppliers become increasingly important when they assign a probability of success or failure to a business. Thus, further research that uses the model variables with more objective measures can improve the variables' ability to predict success and failure.

Two contrary findings were having partners and having parents who owned a business having a negative affect, rather than positive, on the business venture. These two variables were not significant in the Lussier (1995) and Lussier and Pfeifer (2000) U.S.A. and Croatia studies. When tested for differences in Chile, there were no significant differences in the proportions. In fact, the difference between success and failed was only 4% (41% vs. 45%) and 5% (33% vs. 38%) respectively. However, in the probit model, they were significant. Are the differences due to the development level of the country? More research is needed to answer this question because having partners can be helpful to a new business,

and 41% of successful firms did have partners. A third of the sample's parents owned a business and could have been good or poor role models. Some of the parents may have been poor examples, such as not planning, or the children may have taken over the failing business from their parents with little chance of making the business a success. Plus, entrepreneurs have no control over their parents owning a business. So in any case, these variables are less important than the others.

With the trend toward increasing globalization, international global business success versus failure prediction models become more valuable. However, the model needs to be tested in other countries to further validate the predictor variables on a global scale. If researchers duplicate the use of the probit model in other countries, a global success versus failure prediction model may develop.

IMPLICATIONS AND CONCLUSIONS

The results provide some insight into the area of entrepreneurial theories of market competition (Peneder 2008) that leads to success. The current study supports the Lussier (1995) success vs. failure prediction model because it uses the model variables and is also significant in Chile. However, the current model is more robust because it extends the Lussier logistic regression model (success or failure) to an ordered probit regression model (failed, mediocre, or successful). Results confirm the association between planning activity and performance that is evident in most extant literature (Gibson and Cassar 2005), as well as the need for adequate working capital and good financial records and control. A more current finding is the support for the need to use the Internet to succeed in all size business ventures. The study findings may benefit both future and current entrepreneurs; those who assist, train, and

advise them; those who provide capital for their ventures; investors; creditors; their suppliers; researchers; and public policy makers.

SMEs do face barriers to enter and compete with large businesses (Aidis 2005), but public policy has been shown to aid the growth of the SME (Honjo and Harada 2006). Public policy makers in Chile do realize the importance of small business success because it employs the majority of the labor force, so entrepreneurial prosperity is very important to the country's economic growth. The highest priority of any policy towards entry is to secure a smooth and reliable selection of the fittest scenario. Particularly, policy should avoid anything that may distort this selection process (Fritsch, 2008). However, economists in Chile believe resources are not used efficiently. Even though there are no State protected sections, and State policies are supposed to help the small business, most reforms have helped big business. This has resulted in a wide concentration in almost all economic sectors, while many small businesses have failed to compete with large business and the new global competition in Chile. Policy directed at stimulating entry may try to fuel the entrepreneurial spirit, provide advice for nascent entrepreneurs, lower administrative hurdles for start-ups, etc.— however, it should abstain from any interference with fair competition (Fritsch, 2008).

Middle-income countries should focus on increasing human capital and promoting enterprise development (Acs and Szerb 2007). Entrepreneurs need to engage in planning (Gibson and Cassar 2005), as new ventures experience significant difficulties in finding a viable business model, and they often need to adapt their initial business plans (Andries and Debackere 2007). There is a need to provide training to improve the changes of business

success (Robson and Obeng 2008). Thus, public policy makers that want small businesses to succeed should offer them help. Easier access to working capital would aid new ventures. However, working capital without adequate planning and administration of good accounting information and financial control would be a waste of resources. Thus, the government could supply more professional advice to small business at low or no cost to entrepreneurs through courses and advisors who can provide an understanding of the capital needs to start a business and how to keep records and financial controls. Management training should include how to develop a business plan, how to conduct ongoing strategic planning, and how to market the small business.

Middle-income countries should also focus on upgrading technology availability (Acs and Szerb 2007). Note that Internet use by small firms is still low in Chile. Only 51% use the web to expand business opportunities, which means that there is still room to improve in the use of this technology. Thus, it is of particular relevance that the State of Chile help small business by offering incentives to use the Internet and other technologies. Research has shown that the effect of business regulations has an impact on the success of nascent and young business entrepreneurship (van Stel, Storey and Thurik 2007). Thus, when calling for bids regarding technology development funds, policy makers should simplify the complex paperwork as well as increase these resources to promising entrepreneurs.

Even though the legal and regulatory environment has improved substantially over recent years, the time and costs of starting a business in Chile are still high. Nine procedures must be followed to start a business, which take on average 27 days, as compared to an average of 6 procedures and

15 days for the OECD countries (Djankov, La Porta, de Silanes, and Shleifer 2002). This cost, as a percentage of the Gross National Per Capita Income, constitutes 8.6% in Chile, as compared to a lower 5% in the OECD countries. Reducing these costs would provide incentives for the creation of new ventures and would release resources that could be used to boost working capital, thus increasing the odds of success. It is often the case that the need for working capital forces an entrepreneur to turn to partners, which is not always in the firm's best interest.

In order to give businesses an incentive to manage better financial and accounting information, thereby increasing the likelihood of success, public policy makers should align the requirements of tax information to the management needs of the firm. In Chile, firms provide the least information needed to comply with the requirements of the Internal Tax Revenue Service. A financial improvement would be for the firm to adopt the international financial reporting standards (IFRS) as a gradual substitute of the current generally accepted accounting principles (GAAP) in Chile.

Marketing and sales skills was a highly significant variable, thus, it is recommended to make known to the public the already available government funds (seed capital) granted by Corporación de Fomento Fabril (CORFO) assigned to support new ventures. It would also help to expand this aid to existing firms. But most importantly, it is critical to simplify the information needed to be eligible for these benefits and the paperwork to obtain them.

In summary, the probit model is significant, the model variables do in fact predict performance more accurately than random guessing more than 99% of the time. Thus, an entrepreneur can use the model to better understand which resources are

needed to increase the probability of success vs. failure, and those that advise entrepreneurs can help them use the model. Investors and creditors can use the model to better assess a firm's potential for success. Public policy makers can use the model to assist entrepreneurial ventures so that society can benefit in direct and indirect ways via the allocation of limited resources toward higher potential businesses. Entrepreneur and small business educators can teach the model to influence future business leaders, public policy makers, and their practices. Researches can continue to further develop the model.

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ACTIVE VERSUS PASSIVE TEACHING STYLES: AN EMPIRICAL STUDY OF STUDENT LEARNING OUTCOMES

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ABSTRACT

This study compares the impact of an active teaching approach and a traditional (or passive) teaching style on student cognitive outcomes. Across two sections of an introductory business course, one class was taught in an active or — nontraditional“ manner, with a variety of active learning exercises. The second class was taught in a passive or — traditional“ manner, emphasizing daily lectures. Although the active learning approach does not appear to have improved overall mastery of the subject, we did find evidence that active learning can lead to improved cognitive outcomes within a class.

INTRODUCTION

Due to increasing competitive demands both in the business world and in the academic community, management educators strive to provide the most productive classroom experience for their students in order to prepare them for careers in the business world. To achieve this objective, management educators constantly search for new and improved teaching methods. For many years, college instructors and professors in the United States have operated under a paradigm in which they sought to impart knowledge to students in a form of information transfer (Boyer, 1990). In this approach to teaching, students passively receive information from the professor and internalize it through some form of memorization. This process is characterized as passive learning (Stewart-Wingfield & Black, 2005). Although passive learning has been the dominant teaching method, many educators argue that students require more than a mere transfer of knowledge. Not surprisingly, the search for the best approach to business education has led educators to explore many different teaching techniques, ranging from the traditional lecture class or passive learning approach to various experimental approaches, such as active learning (Bonwell

& Eison, 1991).

While researchers intuitively suppose that active learning should be superior to passive learning, such superiority has proved somewhat difficult to quantify (Whetten & Clark, 1996). Although some studies claim that active learning is more effective than passive learning (Benek-Rivera & Matthews, 2004; Dorestani, 2005; and Sarason & Banbury, 2004), research directly comparing both methods are the exception. The fact that much of the active learning research has focused on attitudinal reactions (student satisfaction) rather than cognitive outcomes has complicated matters even more. Another difficulty in comparing previous studies is the wide range of activities that can be defined as active learning.

The main purpose of the present study is to compare the impact of an active teaching approach and a traditional or passive teaching style on student cognitive outcomes. Our research is guided by the question, —Is the active teaching approach more effective than the passive teaching approach in regards to learning outcomes?“ Aside from our findings, our study differs from previous research by (1) using a dual-factor criteria (broad and specific learning) that facilitates comparisons between teaching styles; (2) clearly separating teaching

approaches across two classes for a full semester; (3) studying a broad (and relatively large) sample of students; and (4) explicitly controlling for various student-specific factors as well as survivor bias.

Literature Review

In response to the increase in competition both in the business world and among business schools, excellence in teaching is becoming an essential avenue for faculty members to produce a competitive advantage for their colleges (McKeachie, Pintrich, Lin, & Smith, 1986). Given the significance of the need to improve teaching approaches, it is not surprising that many different teaching methods have been developed within the past thirty years. In management education, variations of active learning include experiential learning (Kolb, 1984), problem-based learning (Miller, 2004), participative learning (Mills-Jones, 1999), and cooperative learning (Johnson, Johnson, & Smith, 1991). We will briefly describe active learning and some other related teaching approaches that are commonly categorized as active learning, and then compare these methods with the traditional or passive approach. Lastly, we will compare our research with those studies that focus on comparing how the two teaching methods impact cognitive outcomes.

ACTIVE LEARNING

Active learning is a broadly inclusive term, used to describe several models of instruction that hold learners responsible for their own learning. The leaders in the field of active learning, Bonwell and Eison (1991) have contributed heavily to its development and to the acceptance of active learning as a viable approach. Proponents of active learning describe a process in which students engage in “doing things and thinking about what they are doing” in the classroom (Bonwell & Eison, 1991, p. 2). Active learning encompasses various practices, such as pausing in lectures for students to consolidate their notes, interspersing short writing exercises in class, facilitating small

group discussions within the larger class, incorporating survey instruments, quizzes, and student self-assessment exercises into the course, leading laboratory experiments, taking field trips, and using debates, games, and role play (Bonwell & Eison, 1991; Sarason & Banbury, 2004; Ebert-May, Brewer, and Allred (1997)). Bonwell and Eison (1991) suggest that active learning provides the following benefits: students are more involved than in passive listening; students are engaged in activities such as reading, discussing, and writing; student motivation is increased; students can receive immediate feedback; and students may engage in higher order thinking, such as analysis, synthesis, and evaluation.

In order to have a positive effect on students, the management educator must apply the principles of active learning to the practical setting of the classroom. Auster and Wylie (2006) suggest that four dimensions are necessary to create a systematic approach to promote active learning in the classroom: context setting, class preparation, class delivery, and continuous improvement. Context setting refers to creating an open and relaxed atmosphere for learning in the classroom. Class preparation involves thought, planning, and creativity before the class session. Class delivery refers to the implementation of the planned lesson in the classroom. Continuous improvement entails seeking and using feedback concerning the teaching approach. Other Related Teaching Approaches

Experiential learning is an associated concept in which students learn from relevant experiences provided in the course of instruction (Kolb, 1984). Management educators should be aware of two cautions. First, experiential exercises alone may not be sufficient to induce learning and, secondly, students will need time to reflect on the experience (Stewart-Wingfield & Black, 2005). Kolb (1984: 41) explains that learning is a process, not an outcome; that learning comes from experience; that learning requires resolution of dialectically opposed demands;

that learning is holistic and integrative; that learning requires interplay between a person and an environment; and that learning results in knowledge creation.

Another approach is problem-based learning (Miller, 2004; Albanese & Mitchell, 1993) which structures a course around the resolution of a real world problem. This approach traces its beginnings to the philosopher and educator, John Dewey, who claimed that problems are a stimulus to thinking (Miller, 2004). To discover the solution to a problem, students must learn the basic principles of a subject. Having borrowed the concept of problem-based learning from service learning in which students learn by performing some service for the community, Miller (2004) applied the approach to organizational behavior classes in the business school.

Participative learning is defined as engaging the student in the learning process by giving them an opportunity to take part in selecting activities and/or assignments in the class (Mills-Jones, 1999). For example, students may be allowed to choose elements in the syllabus, to write exam questions, or to participate in the grading of some class projects. By involving students in choosing some direction for the course, students should take on responsibility and become accountable for positive outcomes in the class.

In cooperative learning, students are required to work together in small groups and class discussions. In order for small groups to develop cooperative learning, five basic elements are necessary: positive interdependence, face-to-face interaction (promote each other's success), individual and group accountability (no social loafing), social skills, and group processing or feedback (Johnson, Johnson, & Smith, 1991). When the five elements are present, cooperative learning in small groups can maximize each student's learning as one helps another. Passive Learning

Passive learning is prevalent in the traditional teaching approach taken by many

professors in business schools. In traditional classes, professors deliver lectures for the majority of the class time and there is little opportunity for student input through discussion or experiential exercises (Stewart-Wingfield & Black, 2005). Additionally, professors provide a syllabus and class schedule and determine grades in traditional classes using a small number of exams, typically based on multiple choice, true-false, or matching questions. The traditional lecture approach has been commonly used for many years in higher education because it provides a convenient and expeditious mode to impart knowledge and introduce basic principles to large classes of undergraduate students (Whetten & Clark, 1996). Using the traditional lecture method, professors can present a large amount of material in a relatively brief amount of time (Miner, Das, & Gale, 1984).

While the traditional lecture method is still predominant, some studies have shown that students fail to retain as much material after the class has been completed in comparison to classes taught in an active environment (Van Eynde & Spencer, 1988). Another drawback to this method appears to be a lack of student attention, which many management educators have observed in their own classes (Dorestani, 2005). Management educators conjecture that many students are not actively engaged in most traditional lecture classes. Therefore, it is not uncommon for some students to drift off to sleep, for others to talk among themselves, and for some students to play games or send messages on their laptop computers during class. To counter the above listed behaviors, management educators have turned to active methods of teaching.

Although active teaching methods have been developed specifically to improve upon passive teaching, the literature shows that attempts to quantify its effectiveness have met with (at best) mixed results. (For a broad survey of the evidence that minimally guided instruction, such as that provided for in the active teaching approach, is likely to be ineffective, see Kirschner, Sweller, and Clark

(2006).) Focusing on students' satisfaction with the course, several studies have found superior results for active learning (Benek-Rivera & Matthews, 2004; and Sarason & Banbury, 2004). However, these studies were not designed to assess the extent to which active learning translates into cognitive outcomes. A similar stream of research has emphasized class satisfaction in reference to affective reactions following teaching (Stewart-Wingfield & Black, 2005). However, training criteria theory has demarked the uniqueness of affective reactions and participants' learning as independent outcomes (Kirkpatrick, 1976).

A much smaller branch of research has examined the impact of active learning on student cognitive outcomes. For instance, Dorestani (2005) tested the active learning approach versus the traditional lecture method in an economics class setting and found positive results for active learning. The present paper goes beyond Dorestani (2005) by clearly separating teaching approaches across two classes for a full semester, by using larger samples, and by explicitly controlling for student specific factors and survivor bias. Ebert-May et al. (1997) found that students in active learning sections scored higher than those in control groups on specific course material, but not on standardized tests. However, Ebert-May et al. (1997) studied only one specific learning model in biology classes, studied only non-major students, failed to control for any student-specific factors and survivor bias, and did not provide robust quantitative results. Our research improves upon Ebert-May et al. (1997) by examining a broader sample of students, controlling for student-specific characteristics (as well as survivor bias), and by providing robust quantitative results.

Another study within this branch of research, Stewart-Wingfield and Black (2005), reports that an active course design did not result in higher student grades or satisfaction with the class, but that students did perceive the class as more relevant and helpful for their

future careers. Our paper builds upon Stewart-Wingfield and Black (2005) by incorporating more active learning elements into the experimental design, employing a direct comparison of two large classes, more rigorously focusing on cognitive outcomes, and by controlling for various student-specific factors as well as survivor bias. In contrast, Stewart-Wingfield and Black (2005) focuses only on participative and cooperative learning, has relatively small sample sizes, and focuses almost exclusively on student satisfaction. Lastly, Miner et al. (1984) found no significant differences in learning outcomes between two types of active learning and a control group. Aside from our findings, the present paper differs greatly from Miner et al. (1984) in both its experimental design and methodology. Our study clearly separates teaching approaches across two classes for a full semester, studies a broader sample of students, and controls for additional student-specific factors and survivor bias. In regard to this branch of the literature, the present study makes a contribution by: (a) directly confronting two conceptually opposed approaches, (b) emphasizing participants' cognitive outcomes as the key criterion, and (c) utilizing standardized measures in large samples that allow robust between-groups comparison.

HYPOTHESES

On the basis of the above discussion, we posit that the active teaching approach should have a greater positive impact on student cognitive outcomes than the passive teaching approach. To study this theory, we examine two cognitive outcomes that differ in their knowledge scope: class-specific and broad subject. While the first measure emphasizes a deeper grasping of the subject by assessing participants' ability to gain knowledge by interacting with the information learned in class, the second one is intended to assess acquisition of knowledge specifically addressed in each class. This separation parallels notions of knowledge acquisition and

knowledge creation in Yang's (2003) learning theory, in which knowledge acquisition is assimilated to learning cognitive outputs (declarative knowledge), whereas knowledge creation assimilates learning to ongoing processes (procedural knowledge). We expect the use of a dual dependent variable contributes to enhance our understanding on the effect of teaching approaches (passive, active) over learning outcomes.

Because the active teaching approach engages the student and stimulates student involvement in the course, we propose that this enhanced involvement and interest will result in a higher understanding of the subject. This improved learning outcome will manifest itself when students are tested on the general subject matter of a course. Therefore, we propose the following hypothesis:

Hypothesis 1: Broad student learning outcomes are stronger in active teaching contexts than passive ones. Next, we directly investigate student mastery of the specific material covered in a class. Active learning, according to the leading proponents in the field, Bonwell and Eison (1991), should involve the students to a greater degree than the passive approach. When students are engaged in active exercises, their motivation to work in the class should increase. Given immediate feedback as the active approach suggests, students should more readily engage in higher order intellectual activities, such as analysis and synthesis of class material. Therefore, we propose that this enhanced feedback and intellectual activity will lead to increased student learning that will result in higher cognitive outcomes for those exposed to active (rather than passive) teaching when students are tested on the specific material covered in the class. Therefore, we also propose the following hypothesis:

Hypothesis 2: Class specific learning outcomes are stronger in active teaching contexts than passive ones. Method

EXPERIMENTAL DESIGN

The main goal of our experiment was to test whether active learning methods, compared to passive learning methods, can improve cognitive outcomes among students. We conducted our experiment in two sections of an Introduction to Business class, each taught by a different instructor. The two sections were taught in consecutive time periods in the same classroom. The earlier class was taught with the active learning approach and is referred to herein as the active section. The later class was taught with the passive learning approach and is referred to herein as the traditional section. Each section started with approximately 150 students enrolled.

In the active section, students were placed into groups of four to five individuals at the beginning of the semester. Students were placed into groups using Kolb's (1984) learning styles. The groups were designed so that students with different learning styles were placed in each group with as much variation as possible. The instructor assigned business projects for each group, due at the end of the semester that required the students to make many group-specific decisions. The instructor facilitated group-based critical thinking exercises and students engaged in class discussions in every class. All of the class discussions and exercises were geared toward integrating the class topics with the business plan projects. At the beginning of each class, students were given a short quiz assessing knowledge of the material covered in the prior class period. Overall course grades in the active section were compiled (equally) from quiz averages and grades on the business projects. Following Ebert-May, Brewer, and Allred (1997), the daily quizzes were used to provide an incentive for taking part in the class discussions and group exercises. As described, the active learning in this section consisted of elements of experiential, problem-based, participative, and cooperative learning. In contrast, the instructor in the traditional section employed the typical

lecture method. Grades in the traditional section were predicated on three in-term exams and one final exam. All quizzes and exams across the two sections consisted of machine-graded multiple-choice/true-false questions.

Manipulation Check

A survey assessing participants' perceptions of teaching styles was applied. Three items inquired about delivery of instruction with respect to in-class activities, involvement opportunities, lecturing emphasis, and group work. Examples of these survey items were —The instructor devoted extended periods of time to lecturing in class“ and —Team work was highly encouraged in class“. A 7-point Likert scale was utilized to assess items. Because measure reliability reached standard levels (.72), items were aggregated. Then, both classes (active versus traditional) were contrasted via a t-test aimed at testing the extent to which participant perceptions of teaching styles differed. The t-test results indicate a significant difference (5.33, $p < .05$) between classes. Cognitive Outcome Measures

The instructors in both sections designed their classes to teach the broad topics found in most introductory business courses. For example, both professors provided a broad survey of all functional areas of business. At the end of the semester, the instructors compiled a common exam, with each professor contributing 25 multiple choice questions. This 50-question common exam was then administered to students in both sections. As such, a standard 50 item questionnaire was utilized to test learning outcomes (both class-specific and broad-knowledge outcomes) across sections. As an incentive for performance, students were awarded 5 points on their final grade if they scored at least 90 percent, and 3 points if they scored at least 80 percent.

To utilize the exam scores for testing class-specific knowledge, we relied exclusively on matching students' scores

on the 25 questions provided by their instructor. To use the exam scores for testing broader knowledge, we relied on the overall score with one caveat. Because both teachers were aware of only the broad topic areas taught in both classes, several exam questions assessed specific items covered in only one section. While this feature of the exam caused us to rely on only 38 questions out of the original 50, it also prevented the possibility of either instructor teaching to address specific questions covered in the other section.

Experimental Issues

Random Assignment. As with any experimental study of this nature, potential bias-related issues exist. One problem is that students were not randomly assigned to the two sections of the course. This lack of random assignment would be most problematic if students registered for either section knowing that it would be taught using one particular method. While it is possible that this sort of self selection exists in our data, it is highly unlikely because more than 70 percent of the students in both sections were first-semester freshmen and neither professor made the experiment known to students prior to the start of the semester.

Demographic Issues.

Table 1 presents basic summary statistics for each section of the course. As seen on Table 1, the students in the traditional course had slightly lower high school GPAs and ACT scores. Freshmen accounted for 72 percent of the students in the traditional class, while they accounted for almost 80 percent in the active section. A slightly higher percentage of females were in the active course (50.35 vs. 46.53), and a slightly lower percentage of enrolled students withdrew from the active course (15 vs. 19). More than two-thirds of students in both sections attended public high schools. Table 1 also shows that students in the traditional class had lower final and core assessment grades. The —core assessment“

grades consist of only quiz averages for the active section, and only exam averages for the traditional class. In both the traditional and active classes, all cognitive outcome assessments consisted of multiple-choice/true-false questions that were machine graded.

Student Withdrawal.

Range restriction (or survivor bias) challenges our analysis in that withdrawing students are left out of the final sample. Our approach for handling student withdrawals is based on the work in Grimes and Nelson (1998), where two distinct styles of teaching introductory economics were studied. Because student attrition has been shown to bias OLS estimators (Becker and Walstad (1990)), we use the propensity score approach to account for the likelihood students will withdraw from a class. Under this approach, the propensity (probability) for dropping the course is estimated with a probit equation and then included as an independent variable in the main regression. Grimes and Nelson (1998) use the Heckman selection model in a similar fashion. We have checked our results using the Heckman approach, and the overall results are virtually identical to those reported in the paper.

Analysis

Probit Equation. The probit equation is as follows: $\text{Withdraw} = \alpha + \beta_1 \text{Gender} + \beta_2 \text{Age} + \beta_3 \text{hsGPA} + \beta_4 \text{ACT} + \beta_5 \text{eACT} + \beta_6 \text{PerAbsent} + e$. (1)

In the probit model, *Withdraw* is the student's binary choice of dropping the course through formal withdrawal (set to 1 for withdrawal and zero for remaining enrolled), *Gender* is set to one for males, *hsGPA* is the student's cumulative high school GPA, *ACT* is the student's composite ACT score, *eACT* is the student's score on the English portion of the ACT, and *PerAbsent* is the percentage of total classes the student missed. The strongest predictor of whether students would withdraw from the class is the variable for the percentage of classes

missed (see Table 2). Each student's predicted probability of withdrawing is then included in our main regressions. We also checked the robustness of our results against several alternative probit equations (all probit models are run using robust standard errors), again finding virtually the same results (available upon request).

OLS Equation. Our main OLS equation is as follows: $\text{Exam Score} = \alpha + \beta_1 \text{GrLev} + \beta_2 \text{hsGPA} + \beta_3 \text{Priv} + \beta_4 \text{ACT} + \beta_5 \text{Gender} + \beta_6 \text{Age} + \beta_7 \text{PerAbsent} + \beta_8 \text{SectionID} + \beta_9 \text{p-hat} + e$. (2) For our dependent variable in model (2), we initially use the measure for broad student learning outcomes, the exam scores on the 38 common-question exam. The independent variables in model (2) are as follows: *GrLev* is the student's grade level, *hsGPA* is the student's cumulative high school GPA, *Priv* is an indicator set to one for students who attended a privately funded high school (included as a proxy for socioeconomic status), *ACT* is the student's composite ACT score, *Gender* is set to one for males, *PerAbsent* is the percentage of total classes the student missed, and *p-hat* is the propensity score (predicted probability of withdrawing) from the probit model.

The remaining independent variable, *SectionID*, is an indicator variable set to one for students in the active course and zero for those in the traditional course. This variable, therefore, represents the marginal difference in the cognitive outcome for students in the active section. A statistically significant positive coefficient for *SectionID*, for instance, would indicate that students in the active course performed better on the exam questions than students in the traditional course. The above analytical procedures are then repeated using our second student learning outcome measure (for class-specific knowledge) as the dependent variable.

RESULTS AND DISCUSSION

Table 3 highlights summary statistics related to our cognitive outcome measures. These statistics show that when students were

assessed on only their respective teacher's questions, the active students scored approximately four percentage points higher than the traditional students at both the mean and median. This finding could indicate that active learning improved cognitive outcomes, but these are strictly univariate measures. In other words, without controlling for any other factors, such as intelligence or absenteeism, students in the active section learned the material taught in their course better than the students in the traditional section learned the material taught in their class.

Because the general subject matter taught in both courses was the same, we also use the overall score on the bonus exam as a measure of how well students mastered the subject (with one important caveat). As mentioned above, because both teachers were aware of only the broad topic areas taught in both classes, several exam questions assessed specific items covered in only one section. For example, one of the bonus exam questions tested knowledge of Frederick Taylor's theory on motivation, a subject that was covered only in the traditional course. Given the nature of the experiment, it is unreasonable to expect students in the active learning section to have acquired knowledge of Frederick Taylor. Although including these types of questions on the exam necessitated that we use only 38 questions out of the original 50, it did prevent the possibility of either instructor teaching to address specific questions covered in the other section.

A total of twelve questions were eliminated from the exam, of which seven were contributed by the traditional teacher and five by the active teacher. These results show, at the mean, students in both sections performed nearly the same on the 38 common question exam (74.9 in the traditional section vs. 74.4 in the active section). At the median, the active section scored slightly better than students in the traditional section (78 vs. 74), indicating a more skewed left distribution in the active section. Because of this finding, we use both OLS and median regression for our

main hypothesis tests (all OLS regressions are run using robust standard errors).

The first set of results from running model (2) is presented in Table 4. The variable of interest is the estimated coefficient on SectionID, which estimates the marginal difference in the cognitive outcome for students in the active section. Because the dependent variable is the score on the 38 common-question exam, the cognitive measure represents how well students learned the broad subject matter taught in the typical Introduction to Business class. In other words, we are testing Hypothesis 1, that broad student learning outcomes are stronger in active teaching contexts than passive ones. The first column of results shows that the OLS point estimate for the coefficient on SectionID is -0.69, with a standard error of 1.5. In this case, there is no significant difference across the two sections. Therefore, Hypothesis 1 is not supported by these results. In regards to the broad subject area of the course, there is no significant difference between student learning outcomes of those exposed to the active and passive teaching approaches.

Because we know that the scores in the active section are more skewed-left, we re-run model (2) using median regression. These results (the second set of columns on Table 4) also indicate there is no statistically significant difference across the two sections. Although the estimated coefficient does increase to 2.5, with a standard error of 1.8, the estimate is still above conventional significance levels (with a p-value of .18). Therefore, we do not have enough evidence to support Hypothesis 1, that active learning improves mastery of the broad subject matter.

Still, it is possible that active learning improved cognitive outcomes as measured by how well students learned the specific material taught in their section of the course. To test this possibility (formally, Hypothesis 2), we use a different dependent variable with model (2). Because we are testing whether class specific learning outcomes are stronger in active teaching contexts than

passive ones, we use each student's score on the 25 questions contributed by the teacher from their section. In other words, we measure how well students from the traditional course did on —their“ questions versus how well students from the active course did on —their“ questions.

The results from this version of model (2) are presented in Table 5. Using both OLS and median regression, these results indicate that active learning had a positive impact on cognitive outcomes. For instance, using OLS, the estimated coefficient on SectionID is 4.11 with a standard error of 2.21. Although not statistically significant at the 5 percent level of significance, this estimate is significant at the 10 percent level (the p-value is .065). Using median regression, the estimated coefficient on SectionID is statistically significant at the one percent level, and is twice as large in magnitude. This median estimate indicates that students in the active section scored almost 8.5 points higher on —their“ 25 questions than students in the traditional section scored on —their“ 25 questions. Therefore, if we focus on how well students learned the specific material taught in their section of the course, students in the active learning section outperformed their counterparts by, on average, nearly an entire letter grade. In other words, these findings support Hypothesis 2. These results are also consistent with those found using —core assessment“ grades as the dependent variable (results available upon request).

Overall, our results are broadly consistent with the literature. In general, it does not appear that the active learning approach is superior to passive learning when success is measured by cognitive outcomes. For instance, as in Ebert-May et al. (1997), we found that there were no significant differences in broad-subject matter learning outcomes. However, also consistent with Ebert-May et al. (1997), we did find a significant improvement in class-specific learning outcomes for students exposed to the

active learning approach. These results, though, highlight some major challenges for researchers and educators.

First, a review of the literature shows that no common definition of active learning exists. Researchers and educators are free to use a plethora of specific activities that qualify as active learning, making the comparison of studies very difficult. Furthermore, it could very well be the case that only certain aspects of what educators identify as active learning actually improve learning outcomes. For example, the experimental designs in both the present paper and Ebert-May et al. (1997) employ daily quizzes to engage the students. It is certainly possible that learning outcomes are improved simply because students have a much higher incentive to study before each class (as opposed to studying only the night prior to an exam). In other words, studying on a regular basis, not participating in —active learning exercises,“ improves cognitive outcomes. Incidentally, a review of the literature shows that the scope of active learning goes far beyond engaging students with daily quizzes. Nonetheless, the results of both of these papers, while supporting the theory that active learning improves cognitive outcomes, could be driven by a factor that is almost outside of the spirit of active learning.

A second major challenge that our research highlights is the difficulty in including all —necessary“ material in a class built upon an active learning model. There is simply no way around the fact that some material æ however minor it may be æ will be omitted when more class time is devoted to active learning exercises. Another major challenge researchers face in an academic setting is studying the impact active learning has on declarative knowledge versus procedural knowledge. Designing the long-term experiments needed to study any sort of ongoing learning process (procedural knowledge), for example, is extremely difficult.

IMPLICATIONS

In terms of broad learning goals, the active learning approach does not seem superior to the passive learning approach. For instance, our results imply that using the active learning approach instead of the passive approach will not produce better statistics students, better business students, better economics students, etc. Still, in terms of narrowly defined learning goals, the active learning approach can improve student learning outcomes. For example, if students in a particular course are —forced— to engage through active learning methods because their grades depend on how well they engage, student learning can improve with regard to their class material.

Our results might be best explained in terms of different types of learning. The literature on learning separates Declarative Knowledge (DK) from Knowledge Structures (KS). DK refers to amounts of information gained in learning whereas KS is based on the notion that information is part of complex entities (structures) wherein information is mentally arranged in patterns (Day, Arthur, & Gettman, 2001). Day et al., maintain that KS facilitate application of information into broader contexts as individuals learn to make sense of information by understanding its relationships with other concepts.

In this context, our results imply students in the actively taught class do a better job learning (memorizing) the material they are exposed to, compared to those in the passively taught section. However, it does not appear that students in the actively taught class translated DK into KS. When confronted with questions not directly covered in class, these students were unable to infer answers from knowledge gained. In other words, students were unable to apply the knowledge they acquired (there was a lack of development of knowledge structures). If these implications are accurate, we can say that further research should separate DK from KS as dependent variables in testing teaching

style outcomes.

Further, because teaching with active learning methods can require additional class time, it is possible that using the active learning approach may result in sacrificing some base knowledge in a course. Perhaps active learning is more appropriate once students already have a foundation in the particular subject matter. Particularly in freshmen courses with high attrition, it may not be worth the time and effort to structure a course completely around the active learning approach.

Instead, teachers should determine which areas of their subject matter are best suited for the active learning approach in order to supplement those areas where the passive approach is best.

CONCLUSION

Our study contributes to the management education literature with quantitative evidence that the active teaching approach may have a greater positive influence on student learning than the passive teaching approach in some contexts. Our results show higher student cognitive outcomes on specific material covered in a class taught with the active learning approach as opposed to one taught with the passive teaching approach. These results are consistent with those of Ebert-May, Brewer, and Allred (1997), who also found higher cognitive outcomes on specific material covered with an active teaching approach compared to a control group. In order to draw further and more general conclusions, future researchers may want to expand this type of study to include multiple subjects and/or even classes taught at multiple universities. Further research is especially needed concerning cognitive student outcomes as opposed to affective responses from students to determine the best teaching approaches for the advancement of management education.

We would also add that greater care needs to be exercised in defining certain types of activities as —active learning.— Because most studies utilize several types of active learning,

it is not always clear precisely which active learning exercises may make a difference. For instance, the authors of the present study strongly suspect that having daily quizzes in the active section (so as to better engage students) could be largely responsible for the differences across the active and passive sections. We plan to test this possibility in future research.

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Table 1

Descriptive Statistics of Students Sampled Basic Traditional Teaching Style Class Active Teaching Style Class Scores Mean Median SD n Mean Median SD n

GPA 2.48 2.81 1.24 144 2.99 3.21 1.14 143 ACT 17.35 19.5 7.6 144 20.66 21 4.63 143 Age 21.79 20

6.87 105 19.62 19 3.68 94 Final Grade 77.7 77 10.59 116 85.35 87.32 8.42 122 Core Assessment

74.87 74.5 10.9 116 75.74 82.9 20.47 139 % Missed 16.63 17.64 12.5 144 18.41 9.1 24.94 142

Note. GPA = Grade point average; ACT = American College Testing. Core Assessment = Average scores for all quizzes and exams. SD = Standard deviation.

Table 2

Summary Statistics for Learning Outcomes

Learning Outcome Traditional teaching style Active teaching style
Mean Median SD n Mean Median SD n

Class Specific Learning 66.25 68.00 12.73 105 70.17 72.00 19.17 116 Broad Learning Outcomes

74.90 74.00 10.13 105 74.40 78.00 12.29 116 50-question Outcomes 63.41 64.00 11.82 105 56.64

58.00 13.83 116

Note. Class specific reports students' percentage of correct answers on questions only related to their class. Broad Learning Outcomes reports scores on the 38-question common test. For the sake of completeness, results for the 50-question test are also provided.

Table 3

Probit Equation Results to Control for Bias Caused by Students Withdrawal

Dependent β SE Variable

Gender .59 .76 Age -.01 .04 HSGPA .19 .40 ACT .24 .19 English -.35 .22 Absentper 3.96 1.82

Constant -2.03 1.47 Pseudo R2 .32

Note. Gender = Set one for females. HSGPA = Grade point average from high school. ACT = American College Testing composite score. English = American College Testing English score. Absentper = Percentage of classes missed.

Table 4

Regression Results (Model 2). Broad Cognitive Learning Outcomes.

Dependent Variable OLS Regression Median Regression*

β SE β SE Grade 2.50 1.32 2.21 1.49 HSGPA 2.54 1.48 1.29 1.46 Private -1.87 1.78 0.36 1.99
 ACT 0.60 0.25 0.97 0.24 Gender 0.41 1.48 0.92 1.78 Age 1.07 0.25 1.23 0.29 Absentper -9.84
 8.11 -6.01 9.03 SectionID -0.69 1.52 2.48 1.83 Phat 30.63 34.35 9.38 31.53 Intercept 32.44 8.81
 23.67 8.93

Note. HSGPA = Grade point average from high school. Private = Indicator set to one if attended private school. ACT = American college testing composite score. Gender = Set one for females. Absentper = Percentage of classes missed. SectionID = Coefficient of the course section. Phat = Predicted probability withdrawal. SE = Standard Error.

* Result from rerunning Model 2 with median regression.

Table 5

Regression Results (Model 2). Specific Learning Cognitive Outcomes.

Dependent Variable OLS Regression Median Regression*

β SE β SE Grade 1.66 1.88 2.39 2.36 HSGPA 3.24 1.99
 1.41 2.25 Private -1.13 2.58 2.17 3.03 ACT 0.83 0.33 1.09 0.37 Gender -0.15 2.19 1.42 2.75 Age
 1.63 0.33 1.45 0.44 Absentper -12.82 10.72 -13.24 13.90 SectionID 4.11 2.21 8.38 2.83 Phat 34.88
 43.47 -5.81 40.94 Intercept 7.36 10.99 8.34 13.37

Note. HSGPA = Grade point average from high school. Private = Indicator set to one if attended private school. ACT = American college testing composite score. Gender = Set one for females. Absentper = Percentage of classes missed. SectionID = Coefficient of the course section. Phat = Predicted probability withdrawal.

* Result from rerunning Model 2 with median regression.

AN EMPIRICAL EXAMINATION OF STRATEGIC ORIENTATION AND SME PERFORMANCE

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ABSTRACT

While the strategic management literature has yielded numerous studies examining the relationship between strategic orientation and firm-level financial performance, relatively few studies have looked at this relationship in the entrepreneurship literature. In this study, we use three samples to first develop an operationalization of strategic orientation in a small-firm context. Moreover, in the final sample of 857 respondents from 21 SMEs, we empirically demonstrate a significant positive relationship between strategic orientation and SME performance. Managerial implications and future research directions are discussed.

INTRODUCTION

Multiple studies in the strategic management literature have examined organizational culture, (c.f., Denison & Mishra, 1995; Schein, 1985; Siehl & Martin, 1988; 1990; & Wallach, 1983); and a common description of culture consistently emerges to be defined as a complex set of values, beliefs, philosophies, and symbols that define the way in which a firm conducts its business (Barney, 1986; Sorensen, 2002; Goll & Sambharya, 1995; Denison, 1984). Researchers assume that organizational culture is shared across all employees within an organization and that this shared culture is transmitted through behaviors and actions of employees within an organization (Wilkins & Ouchi, 1983). Culture forms the identity of a company and guides the actions of the organization, which can create different organizational outcomes (Lee & Yu, 2004).

One of the more prevalent culture concepts among studies attempting to examine the link between culture and firm-level performance is research in strategic orientation. Grounded in Barney's (1986)

theory on the resource-based view of a firm, researchers have defined *strategic orientation*, as a cultural attribute that influences the ability of a firm to focus strategic direction and build or sustain the proper strategic fit for superior firm performance (Gatignon & Xuereb, 1997). The strategic management literature uses resource allocation and environmental cues to determine the right plan for the company to achieve its goals (Goll & Sambharya, 1995). By having a strong strategic orientation, a company is more likely to share goals, making it easier to implement effective processes and increase performance. Strategic orientation as a cultural dimension has also been defined as a continuous and iterative process that must focus on the different effects of rational, economic, political and subjective aspects of strategic change on competitive performance (Whipp, Rosenfeld, & Pettigrew, 1989).

Strategic Orientation and SME Performance

Numerous studies examine the cultural significance of strategic orientation

and its requisite impact on firm success. Calori and Sarnin (1991) found empirical support for the relationship between cultural dimensions, which they defined as management practices, symbols, and different strategies, and revenue growth. Gatignon and Xuereb (1997), executed a survey of 393 marketing executives in which they found positive results in terms of strategy and performance. Their results confirmed that the influence of strategic orientation depended on the uncertainty level in the market that would increase customer orientation, therefore increasing overall performance in a company.

Interestingly, while strategic orientation is the most common cultural attribute studied in the strategic management literature, there have only been limited attempts at assessing its impact on firm performance in small business and entrepreneurship studies. An analysis of the extant entrepreneurial literature yields few studies that have attempted to (1) operationalize strategic orientation; (2) assess its impact on small- and medium-sized enterprises (SMEs).

Given that SMEs are depicted as simple-structure firms that can implement strategies relatively quickly, due in part by the flexibility inherent in small firms (c.f., D'Amboise and Muldowney, 1988; Miller and Friesen, 1984; Quinn and Cameron, 1983; Meseghem, 2003), it can be argued that strategic orientation may have direct implications on SME performance, similar to studies that examine larger firms..

While strategic orientation is not prevalent in the entrepreneurship literature, several studies (Ireland et al., 2003; Meyer and Heppard, 2000; McGrath and MacMillan, 2000) have argued that the entrepreneurial and strategic management perspectives are highly interrelated. Consequently, several researchers have considered entrepreneurial orientation and

firm performance. Wiklund and Shepherd (2003) noted in a survey of 384 Swedish SME's the importance of entrepreneurial orientation and consequently, the resulting firm performance. Lumpkin and Dess (1996) cited five dimensions of entrepreneurial orientation that impact performance. Entrialgo (2002) examined 233 managers of Spanish SMEs and linked entrepreneurial orientation to performance. Escriba-Esteve, et al. (2008) denoted a positive correlation between strategic orientation, top management experience, and firm performance of 295 SME's. Note, however, that entrepreneurial orientation and strategic orientation are unique constructs. As several studies have suggested, it is important to denote the difference between entrepreneurial orientation and strategic orientation. A study examining the effect of entrepreneurial orientation on market orientation and performance in Chinese SMEs (Li, et al, 2008) defined entrepreneurial orientation as a multidimensional construct consisting of innovativeness, risk taking, and proactiveness (Miller, 1983). In contrast, Morgan and Strong (2003) denoted three approaches to strategic orientation, highlighting a firm's analysis, defensiveness, and futurity, by operationalizing dimensions that evaluated performance in medium and large manufacturing firms.

Shortcomings in SME Research

As previously mentioned, there appears to be a gap in the entrepreneurship literature linking the cultural dimension of strategic orientation and SME level performance. This may be due, in part, to two primary areas. The first involves the size of firms analyzed. Despite the indication from several studies (Jennings, Rajaratnam, and Lawrence, 2003; Jennings and Lumpkin, 1992; Lindsay and Rue, 1980;

Robinson, 1982) that smaller firms exhibit contrasting characteristics compared to that of large firms, strategic orientation and performance linkages have almost exclusively occurred after examining large firms. This creates a void in the collective understanding of the role of strategic orientation in SME performance.

A second shortcoming is the lack of a constant measure of SME strategic orientation. Several studies have attempted to address this deficiency. Aragon-Sanchez and Sanchez-Marin (2005) identified management characteristics of SMEs that facilitate strategic orientation and performance. The major limitation to Aragon-Sanchez and Sanchez-Marin (2005) is that no consistent measure of SME strategic orientation was provided, as strategic orientation was determined by the paragraph method. As noted by Conant, Mokwa, and Varadarajan (1990), the self-typing, paragraph method has several limitations, most prominently limited content validity due to the single-item scale that over-simplifies the archetypes.

The dual notions that SME level strategic orientation should be measured and analyzed in a different classification system compared to large firms can provide new insights to the existing body of knowledge about SMEs.

To address these gaps in the literature, we first develop a measure of strategic orientation. To accomplish this we performed a two studies to provide construct and content validity for a measure of strategic orientation in SMEs. In a third study, we confirm criterion-related validity by identifying three hypotheses to test whether or not the strategic orientation of an SME impacts SME firm performance. Although several studies demonstrate the relationship between strategic orientation and large-firm performance to be positively correlated, these studies provide little

empirical evidence on the specific relationship between strategic orientation and SME performance.

Strategic orientation is likely to positively impact SME performance. As seen in previous research (c.f., Goll & Sambharya, 1995; Gatignon & Xuereb, 1997), when competitive advantages are pursued, defended, and achieved via a strong strategic orientation, there is a positive impact on the financial performance of the firm. Similarly, it can be argued that SMEs are more likely to gain competitive advantages over competitors via strategic orientation, resulting in superior performance similar to larger firms.

Based on these concepts, we offer three hypotheses relating strategic orientation to SME performance. Note that in this study we use multiple dimensions of financial performance, as this is consistent with previous research studying the impact of culture on performance.

H1a: SME profit growth is positively related to strategic orientation.

H1b: SME ROE is positively related to strategic orientation.

H1c: SME ROA is positively related to strategic orientation.

Control Variables

We also identify four control variables based on previous research looking at different cultural dimensions on firm performance. These variables have been empirically shown to impact employees' perceptions of culture. Specifically, the control variables we used are tenure, employee age, level in the organization, and company tenure.

METHODS

Data Collection

The entrepreneurship and strategy literature suffer from inconsistencies relating strategic orientation to performance.

Previous studies have attempted to measure strategic orientation by surveying many individuals in very few companies (Calori & Sarnin, 1991). Conversely, other researchers have attempted to collect data from large cross-sectional samples, but only collect data from one person per company (Denison & Mishra, 1995). Moreover, there has been no accepted measure of strategic orientation, especially at the SME level.

We performed three separate studies to overcome these deficiencies. Study one and study two were designed to ensure that we created content valid measures of strategic orientation. The final study attempted to link strategic orientation with several different levels of SME performance. To overcome inconsistencies with previous research, study three surveyed all employees (as opposed to one employee) in multiple organizations (as opposed to a single organization) in order to assess strategic orientation on firm-level performance. Specifically, in the third study, we surveyed 857 respondents from 21 small- and medium-sized companies. Company sizes ranged from 50 employees to 120 employees.

Item Development

Based on a review of the extant research, we developed a list of potential survey items to measure strategic orientation as an underlying cultural dimensions of SMEs. We were able to draw on existing literature from the strategy and entrepreneurship literatures to identify construct items that had been empirically tested in previous research. We then performed an inter-rater reliability assessment to address the consistency of the potential items (c.f. Carmines & Zeller, 1991). Specifically, we had a panel of seven experts (defined as academics researchers actively involved in studying antecedents of SME financial performance) to match

potential individual survey items with our construct of strategic orientation. Values greater than 0.70 are typically acceptable for consistency estimates of inter-rater reliability (Crocker & Algina, 1986). Therefore, when an individual item received an inter-rater reliability score of less than 0.70, that item was dropped as a potential survey item.

Once we established the content and agreement of this construct of items, we developed an initial survey. Specifically, we measured strategic orientation as a cultural dimension using a seven-item instrument. Respondents were asked to rate the degree to which each statement accurately described the strategic orientation of their organization (using a five-point Likert scale where 1= strongly disagree, and 5=strongly agree).

Dependent Variables

Clearly, strategic management and entrepreneurship researchers suffer from a lack of consistency defining firm-level performance. However in terms of the culture-performance literature, much of the research focuses on financial performance (e.g., profit growth), while the remainder examines market performance (c.f., Christenson & Gordon, 1999) or process outcomes, such as successful value innovation (Gatignon & Xuereb, 1997; Ogbonna & Harris, 2002; Wiklund & Shephard, 2003). Given that the financial performance measures are accepted in the culture-performance literature, we measure firm performance in terms of profit growth over a five-year period, return on investment and return on assets, to recognize financial performance as a multidimensional phenomenon. We felt it was necessary to measure performance longitudinally, as strategic orientation evolves over time and therefore would have a dynamic effect on firm performance.

RESULTS

Two separate studies were completed to develop the comprehensive scale of strategic orientation as predictor of SME performance.

Study 1. In the first study, respondents of a SME service organization completed our survey instrument to measure strategic orientation. Specifically, respondents were asked to agree/disagree using the five-point Likert scale in terms of how a particular statement related to the strategic orientation

We found encouraging internal reliability and dimensionality results from this initial survey. We measured internal reliability using the Cronbach's alpha score. Specifically we found that our measure (.89) exceeded Nunneley's (1967) stringent threshold of 0.70.

Study 2. In order to assess replicate the content validity of our measure from study 1 and to assess the criterion-related validity of our strategic orientation measure, we conducted a second study. We collected data from employees in a technology-based SME using the same measures from study 1. We surveyed these participants across the organization instead of relying upon the perception of the top management team. We also collected performance data and included demographic information based on the extant culture-performance literature, to provide some possible linkages to control variables. Demographic items collected information on the respondents' tenure at the company, length of time on current job, age, gender and level in the organizational hierarchy.

We collected survey data for culture and performance using mail surveys. Our response rate was 45 percent, yielding 117 responses. Consistent with Study 1, we assessed the internal reliability of our strategy-orientation measure of culture using

Cronbach's Alpha with a reliability measure of .90.

Criterion-Related Validity. In order to assess criterion related validity, we examined the relationships between our strategic-orientation dimension and performance. Specifically, we used hierarchical OLS regression modeling to test these relationships. Additionally, we controlled for demographics of respondents, as previous research has argued that employees' perception of culture are impacted by their level in an organization (Kristof-Brown et al., 2005). Before any regression results were interpreted, a complete set of diagnostic procedures was completed to ensure that this modeling technique was appropriate for these data. Specifically, data were checked for normality, patterns in residuals such as heteroscedasticity, and outliers (cf. Weinzimmer, Mone & Alwan, 1994).

Study 3. In study three, where we collected data on strategic orientation and firm performance from employees in 21 SMEs, in order to test our hypotheses. Specifically, we tested the extent to which strategic orientation impacts SME performance. We again used hierarchical linear regression modeling.

Descriptive Statistics and Correlations

Initial analysis revealed no significant correlations between the independent variable and control variables, suggesting a low probability of multicollinearity in the regression models. Means, standard deviations and correlations of variables are presented in Table 1.

Regression Analysis

Tables 2-4 present regression results. Results from Table 2 show a significant positive association between strategic orientation and profit growth ($p < .001$), providing support for H1a. This suggests

that a strong strategic orientation is positively linked to profit growth. Results from Table 3 show a significant positive association between strategic orientation and ROE ($p < .05$), thus supporting H1b. This suggests that a strong strategic orientation is positively linked to ROE. Finally, Table 4 show a significant positive association between strategic orientation and ROA ($p < .01$), supporting H1c. This suggests that a strong strategic orientation is positively related to ROA.

DISCUSSION AND CONCLUSIONS

The present study sought to establish the construct and criterion-related validity of a measure of strategic orientation as a cultural dimension in SMEs and show the link of strategic orientation and firm performance. In order to develop this construct, we first established the content validity of our measure through an exhaustive literature search of the strategy and entrepreneurship literature. We further strengthened this content validity through inter-rater agreement about the items included in our measure and by establishing the psychometric properties of our measure in terms of its internal reliability and factor dimensionality. In study 2, we again replicated the internal reliability estimates, and we established tentative criterion-related validity of our measure. Our measure of strategic orientation predicted significant variability of performance at the firm level.

The data support all three hypothesized relationships. Specifically, we found evidence that strategic orientation is positively related to firm performance (Aragon-Sanchez and Sanchez-Marin, 2005; Morgan and Strong, 2003). However, while researchers have provided numerous arguments for the impact of strategic orientation on performance, limited studies have found empirical evidence for the relationship between firm performance and strategic orientation as a cultural dimension in an SME context.

We also note some limitations in the present research. We conducted cross-sectional research using a single method of data collection (e.g., surveys). Although our firm performance measures were “hard” measures of performance gleaned from company financial information, all other data were collected via self-report surveys. Thus, we cannot exclude the possibility that some of our results occurred in part from this common method bias.

Managerial Implications

Since our study did not discriminate between high-performance and low-performance firms, managers can use the findings from our study to assist performance improvement. Results from this study indicate that strategic orientation positively impacts multiple levels of performance.

Research Implications

This study has attempted to provide a framework to empirically test the impact of strategic orientation on SME performance by using a multidimensional construct on multiple measures of performance. Given the relatively low adjusted R^2 measures, future research may consider additional variables to control for firm performance, such as industry characteristics.

In conclusion, the present study sought to develop construct validity for strategic orientation and its effects on SME performance. Specifically, we found evidence that strategic orientation is positively related to firm performance. We attempted to establish critical facets of validity that allow researchers to answer a basic question: Does our measure assess what we say it measures? Through a comprehensive literature review of the strategic management literature on organizational culture, we developed a measure of strategic orientation. We established preliminary content validity of this measure in study 1. In study 2, we

replicated study 1 and established criterion-related validity of our measure. Finally in study 3, we were able to empirically demonstrate the relationship between strategy orientation and SME performance. Our results encourage us to continue to refine our measure and seek to strengthen and expand the application of strategic orientation in an SME context.

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Table 1. Means, Standard Deviations, Correlations

Variable	Mean	SD	1	2	3	4	5	6	7
1. Profit Growth	-1.52	17.03	-						
2. ROE	.071	.009	.53**	-					
3. ROA	.023	.075	.48*	.51**	-				
4. Strategic Orientation	1.505	.98	.20**	.13**	.15**	-			
5. Tenure	4.12	4.23	.07	.01	-.01	-.02	-		
6. Age	40.51	11.25	.00	-.04	.00	-.09*	.28**	-	
7. Gender	.16	.31	.01	-.01	.02	-.02	.01	-.07	-
8. Level	.31	.15	.01	-.05	-.01	-.05	.08	.07	-.05

Notes: N = 857

* p<.05, ** p<.01

Table 2. Hierarchical regression results for profit growth

	DV = Profit Growth	
	Model 1	Model 2
<i>Control Variable</i>		
Tenure	-.004	.001
Age	-.015	-.017
Level	-.257**	-.288**
Gender	.058	.215
Strategic Orientation		.558**
F	5.105**	8.845**
Adj. R ²	.037	.086
Change R ²		.05**

Notes: N = 857

* p<.05, ** p<.01

Table 3. Hierarchical regression results for ROE

	DV = ROE	
	Model 1	Model 2
<i>Control Variable</i>		
Tenure	.001	.003
Age	-.003	-.005
Level	.032	-.020
Gender	-.194**	-.077*
Strategic Orientation		.138*
F	4.96**	5.034**
Adj. R ²	.017	.048
Change R ²		.03**

Notes: N = 857

* p<.05, ** p<.01

Table 4. Hierarchical regression results for ROA

	DV = ROA	
	Model 1	Model 2
<i>Control Variable</i>		
Tenure	.000	.000
Age	.000	.000
Level	.004	.003
Gender	.001	.005
Strategic Orientation		.015**
F	2.12	3.914**
Adj. R ²	.011	.04
Change R ²		.03**

Notes: N = 857

* p<.05, ** p<.01

ANALYSIS OF INITIAL START-UP AND FOLLOW-ON FINANCING IN SMES: A STUDY OF ARKANSAS SBDC CLIENT COMPANIES

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ABSTRACT

In this paper, the authors will discuss the results of a recent survey analyzing financing options for small businesses, owners attitudes toward different financing options, and difficulties encountered in gaining such financing for growth.

This study sought to address two primary aspects of financing within small businesses – availability/use of outside debt or equity funds, and owner attitudes toward various funding options. The survey instrument was administered to businesses in the Arkansas Small Business Development Center (ASBDC) data base. Selected results from the survey will be presented in this paper.

INTRODUCTION

According to the U.S. Small Business Administration (SBA, 2007), small businesses accounted for all of the net new jobs in the U.S. economy in 2004. Small firms had a net gain of 1.86 million jobs, while large firms with 500 or more employees had a net loss of 181,000 jobs. Small firms employed 50.9 percent of the private sector work force and generated 50.7 percent of the non-farm private gross domestic product.

In addition, about 99.9 percent of the employer businesses fall in the small business category (SBA, 2007). The average (mean) small employer had one location and ten employees, while the average large employer had 62 locations and 3,313 employees. The median employer size was about four employees for small firms and 1,000 employees for large firms.

With such significant economic statistics, gaining a better understanding of small businesses and their opportunities for financing for growth becomes critical to

researchers. Without the ability to finance business startups or expansion, entrepreneurs cannot maintain their place as the primary engine of the U.S. economy. With this in mind, the researchers undertook to create a survey that provides information on (1) options for financing in small businesses, (2) ownership attitudes towards financing options, and (3) difficulties involved in getting business financing needs met. Both equity and debt financing were reviewed.

This paper is a preliminary report on the results from the above financing survey. It is not an attempt to analyze the survey results in great detail. In some areas, it provides corroboration of information from both Federal reports and academic analyses. In other areas, however, it appears that the survey information contradicts at least some of the national data on small businesses. Follow-on projects will analyze the survey results in much greater detail.

METHODOLOGY

In small business development studies, probably the most binding constraint of the researchers is to acquire relevant information about the target population. Due to its relevance and ease of accessibility, we have structured our sampled data from the Arkansas Small Business Development Center (ASBDC) client pool. ASBDC provides a broad variety of consulting services to different client groups, from entrepreneurs in the planning stage to small companies that have been in business for many years. Clients of the center are generally classified into three broad groups: casual clients; clients having training services from the center; and finally small companies getting significant counseling from ASBDC staff. For our target population, we first chose going-concern companies receiving any counseling services from the center. This created a population of 2807 clients, based on March 2008 records. The authors used a simple random sampling strategy. The sample was further refined by requiring that companies had started their operations at the beginning of 2006 or earlier and that they were still in business at the time of the survey. This created an a priori sample population of 1476 clients.

The authors then developed the Internet survey instrument and placed it on-line with assistance from the Arkansas Small Business Development Center (ASBDC). Prior to the release of the survey, three email messages were written and sent to the selected survey population. The researchers provided ASBDC with text of the email messages and the ASBDC contacted persons via email regarding the study. The first email was sent a week before the survey was available to potential respondents. The second email was sent when the survey was available and requested that potential respondents complete the survey. The third

email was sent the following week as a reminder that the survey was on-line and available for responses.

As required by Institutional Review Board guidelines, potential survey respondents were assured of confidentiality and anonymity. It was also noted that participation was strictly voluntary among those contacted. No incentives of any kind were offered by the researchers or ASBDC for participation in the survey. The researchers are unaware of the identities of the respondents and are not personally involved with any respondents to this study. After collecting the data, the respondent pool was revisited. Cases where there were duplicate respondents from the same company were sorted and the primary respondent was retained. Between these duplicates and bounced e-mails, 173 of the potential client population (equal to 11.7% of the total clients sampled) were removed from the a priori sample population. A total of 162 survey responses were collected from the 1303 remaining valid e-mails, which equates to a 12.4% response rate.

The ASBDC is composed of the central state office in Little Rock, and six satellite offices throughout the state. The target list of respondents was collected from the client data base of all seven offices. The authors understand that constructing a sample from ASBDC clients probably creates a “survivor bias” in our population. Surveying ASBDC clients, who presumably benefit from ASBDC training and counseling, likely means the survey sample is more successful than the population of “all business startups”. However, this inherent bias does not mean that the data collected is not valuable in helping researchers to understand the financing methods used and the financing options available to SMEs. In fact, it could be argued that because the sample population has in some form been successful, that the information provided

would be more valuable to individuals considering a new business startup or growth financing options in their existing business.

Survey respondents were asked to review and complete a 28-item survey instrument. Items one through four asked about founders' ownership of, and allocation of equity within, the firm. Items five, seven and eight asked questions related to the owners knowledge level concerning business financing as well as their financial contributions to the business startup. Items nine through eighteen address information items on external funding for the firm. Item 21 asked the respondent to provide data on the company's current capital structure. Items 19, 20 and 22 to 24 deal with owner attitudes toward funding options for the firm, both historical funding and potential future resources. Item 25 requests information on purposes for previously received debt or equity funding, while item 26 asks about plans for raising additional capital. Finally, items 6, and 26 through 28 asked the owners about their use of business planning and whether they had used a business plan for raising funds in the past.

DISCUSSION

Broadly speaking this study was designed to analyze the financing structure in companies within a specific geographic region by tabulating the results obtained from a recent survey. Highlights from a number of the survey questions are shown below.

According to a 2003 national survey, a small business firm has an average (μ) of 3 owners, and the sample population median ($\tilde{\mu}$) is 1 (Mach & Wolken, 2006). This compares with a sample average of 1.7 and median of 2 owners in the current study (Question 1). This difference may be partly explained based on a relatively homogenous data-source used in this study (i.e., geographic, SBDC grouping).

In both the national data and our survey responses, the distribution is dominated by between 1 and 3 business owners (Mach & Wolken, 2006). This suggests that our survey may be useful in better understanding the complexities of how a small number of owners go about capitalizing a small business venture.

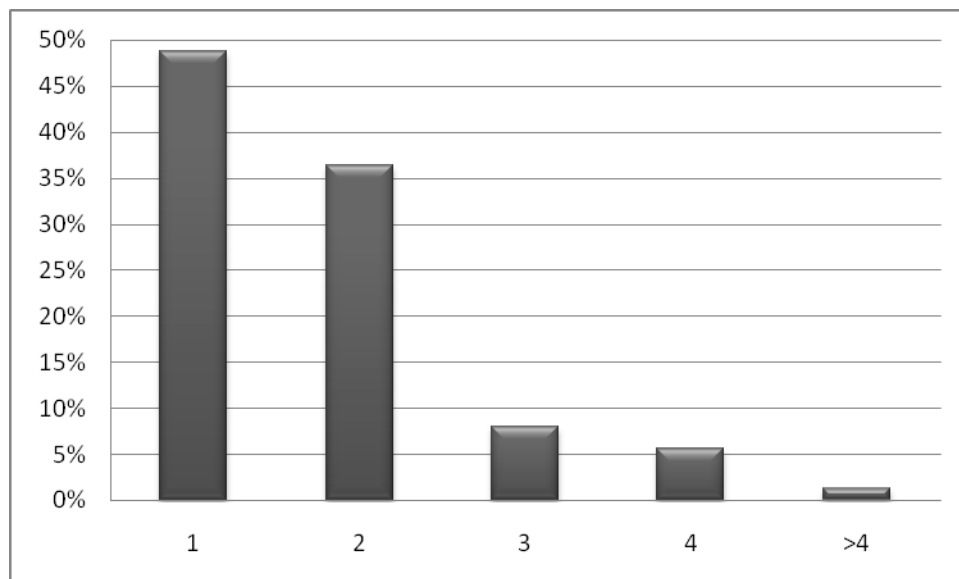


Figure 1 – Number of founders

Question 2 requested data on division of ownership within the firm. By removing the 79 one-owner companies from the answer set we are left with 83 companies having more than one owner, which provides the following data:

Forty-seven of these multi-owner firms (57%) divided initial ownership equally, while 36 (43%) did not. Furthermore, almost every company (95.3 %) in the total sample replied affirmatively to Question 4 which asked whether or not the initial ownership division was appropriate. Even after taking out the one-owner firms, only 7% (6 respondents) felt that the initial division of ownership was inappropriate.

Question 3 explored which factors are most significant in determining the (uneven) allocation of ownership within a business. Responses to this question varied widely. The largest factor in the opinions of the

respondents was individual financial contribution (42% rated this as one of the most important factors), but not by a wide margin. Closely following this response were: (35%) the inventor/original idea; (27%) industry experience; and (26%) expectation of time committed to the business. The most insignificant factors noted by the respondents were: (36%) age; and (36%) other factors.

Information on initial investment and current capital structures can be seen in Figure 2, Figure 3 and Figure 4 (based on survey questions 5, 9 and 10) which provides introductory statistics representing the financial structure of the population companies. The sample mean for question 5 (How much did it cost you to start your business) is \$ 114,391 and the data shows relatively large variations between groups (Standard deviation was \$ 140,851). This variation is an indicator of the widely differing overhead and startup costs associated with different types of businesses.

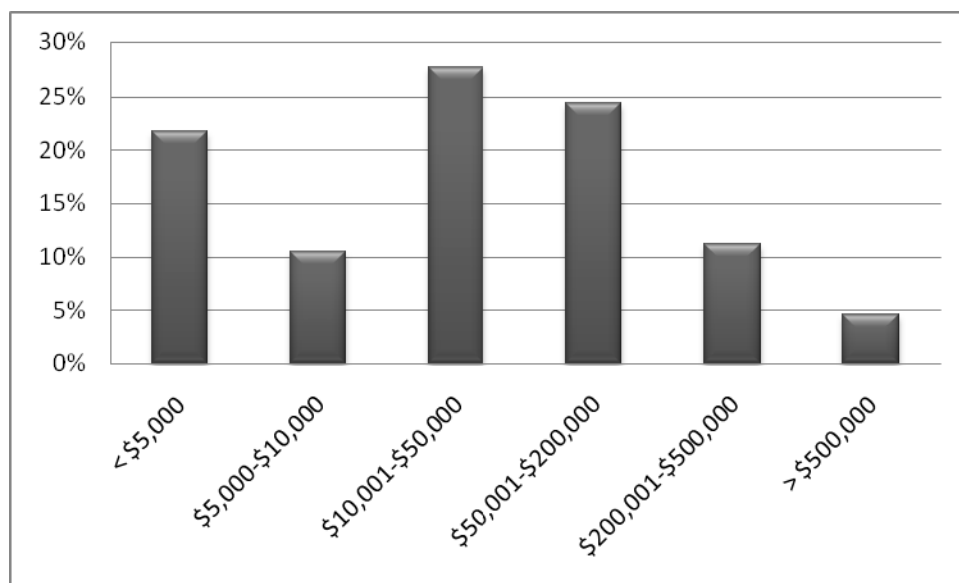


Figure 2 – Initial Cost of Investment

Question 9 asked “what percent of total money required to start the business was received from outside sources”. Moderately in line with Cassar’s (Cassar, 2003) findings of 40.2%, the mean of responses to this question was 35.8%. However, our sample

had a much wider Standard Deviation of 56.8%, compared to 34.5%. As can be seen from the chart, most respondents replied either “0” or “between 75 and 100%”, explaining the large variance in our data.

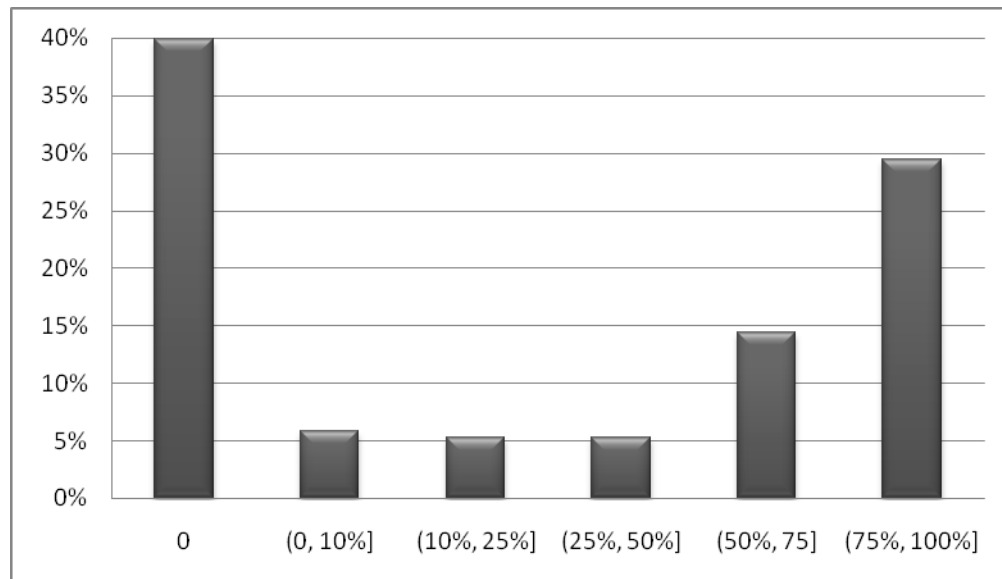


Figure 3 – Percent of Startup Cost Obtained from Outsiders

Of the 162 total respondents to question 10, 30.9% received less than 50% of their requests from their lenders or investors, 36.4% of the population received all of the requested amount, 19.1% received more than three fourths but less than their whole request, and the rest of the population (14.6%) received more than half of but less than three-fourths of their proposed amounts. On average, the population

received 69.4 % of their outside funding requests with a standard deviation of 42%, again a function of the significantly bi-modal distribution. Surprisingly, almost one-third of respondents indicated they went forward with their business venture with less than half of the capital requested. Further study of this subgroup might provide some useful insights.

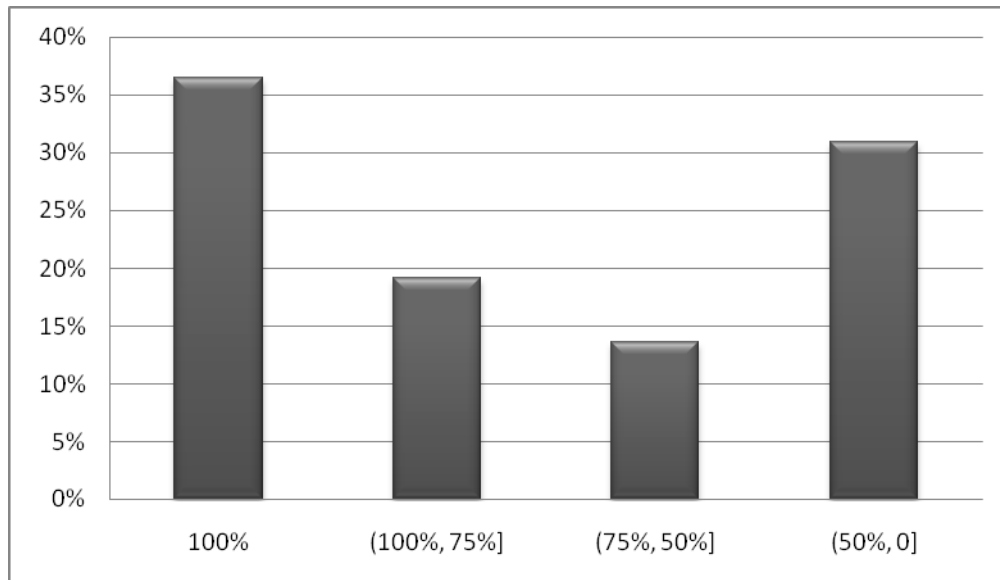


Figure 4 – Amount of Initial Request Obtained from Outsiders

The vast majority of the sample (97%) reported in question 8 that they used at least some of their own funds in the start-up phase. Ninety-three (57%) provided funds from savings, while 27 (17%) provided money from home equity, 17 (10%) used monies from sale of personal assets, and 16 (10%) provided money from retirement accounts. However, direct financing

through banks and/or credit cards is still one of the most important sources (31.2 %) of business funding (Bank Loan, Commercial + Bank Loan, Personal + Credit Cards). Here, our sample was significantly different from Cassar (Cassar, 2003) where his sample showed only 16.9% of new firm financing was from “bank financing”.

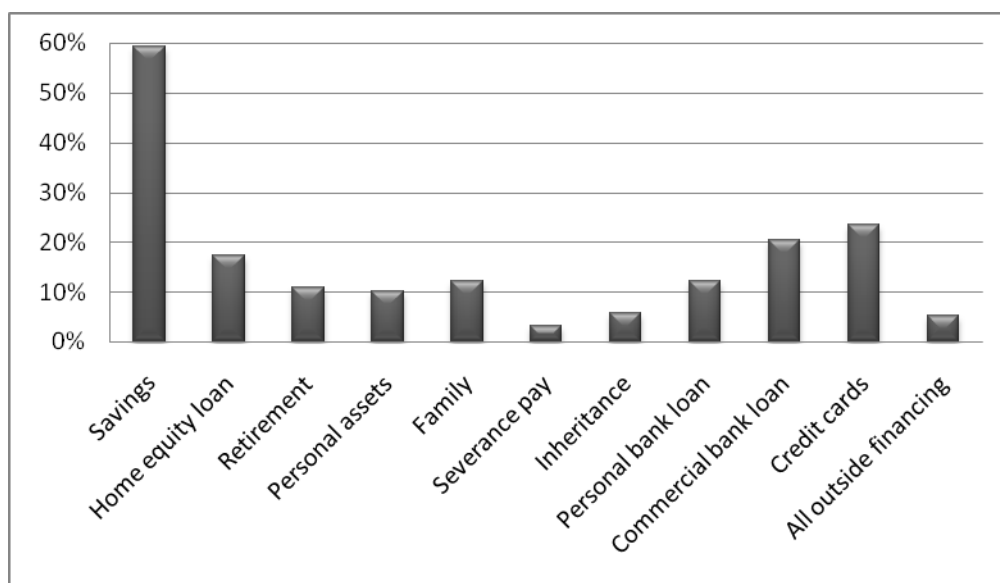


Figure 5 – Source(s) of Personnel Financial Contribution at Startup

Similar to the findings in question 8, bank-based financing (credit cards and bank loans) is at the top of the list of on-going financing tools (question 11). The authors recognize that using ASBDC clients as a sample may bias this result, as many clients specifically contact the ASBDC (or are referred to them by lenders) for assistance in obtaining SBA financing. There appears to be some relationship in our data to the financing “pecking order” noted by (Myers, 1984), (Watson & Wilson, 2002) and (Ou & Haynes, 2006) among others. The evidence presented by OU and Haynes (2006)

specifically shows a preferential order in borrowing from “internal sources to traditional lenders to nontraditional lenders”. Almost 44% of the overall respondents specifically indicated that they use credit cards as an on-going financing tool, while 34% use bank loans. In addition, we see that the situation for maintaining a credit line at a financial institution is again dichotomous. While almost half of the firms (47.4%) responded to question 14 that they maintain a credit line in a financial institution, the rest of the firms did not use credit lines to alleviate temporary cash shortfalls.

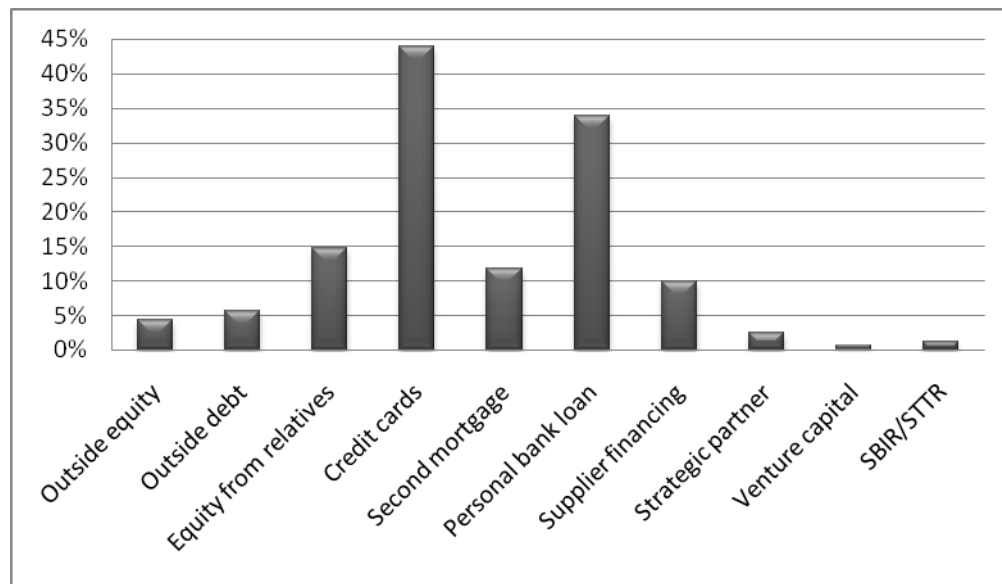


Figure 6 – Source(s) of Outside Financing

Again signifying the importance of commercial banks for the finance of small businesses, when we asked in question 16 what source the respondents would most likely employ to solve future cash flow

problems, we see that the majority of companies (60%) would expect to use commercial banks. No other single source of financing such a projected shortfall measured above 12%.

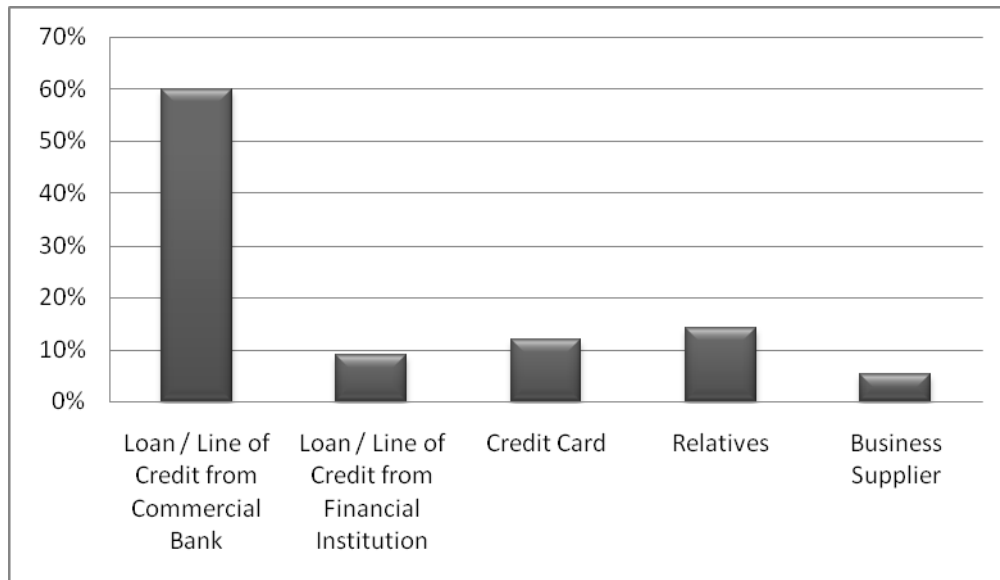


Figure 7 – Likely Borrowing Sources for Shortfall

As important as the initial investment, having enough financing resources to maintain an adequate level of working capital is critical. We asked question 15 to see whether small businesses were able to meet their funding needs on an ongoing basis. In this case, 30.5 % of the firms answering the question appeared to be well funded all the time, while 39.7% were mostly able to satisfy their additional capital needs. Only 6.6 % of our sample reported never being able to meet their funding

needs. This compares reasonably to (Levenson & Willard, 2000) where 2.14% of firms studied who were seeking outside funding did not obtain the funding for which they applied, 4.22% were estimated to have been discouraged from applying for funding from outside sources due to the likelihood that they would be turned down, while an additional 2.17% suffered short-term limits to their funding ability.

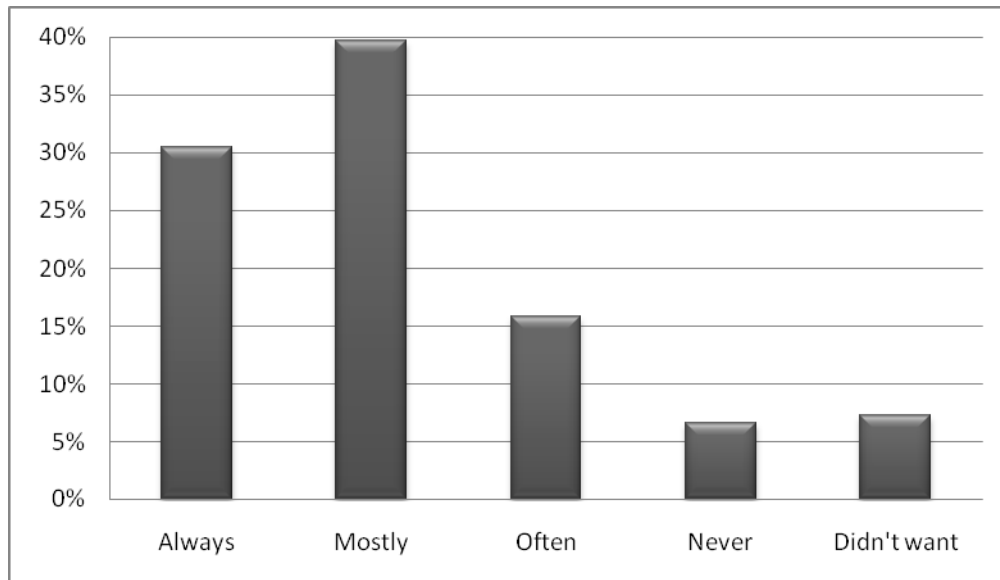


Figure 8 – Satisfying Funding Needs

Anecdotally, limited access to capital is the most pronounced item identified by entrepreneurs as hindering their probable success in the early years. This is consistent with the responses received to question 10, where almost 1/3 of the sample indicated that they received less than 1/2 of the capital requested. The validity of this belief as tested in this study revealed that while 33.3% of the companies answering the questioned agreed with the negative impact of capital deficiencies in their first years of operations, a majority of the sample (40.7%)

disagree or strongly disagree with the statement and 25.9% provided a neutral response. Note again, however, that a survivor bias is almost certain to be present in this sample.

There is also some *preliminary* evidence supporting Brewer et.al. (Brewer III, Genay, Jackson Jr., & Worthington, 1996) that the smallest firms in our sample are “more likely to obtain debt than non-debt (equity) financing”. However, more analysis needs to be completed before this relationship can be confirmed.

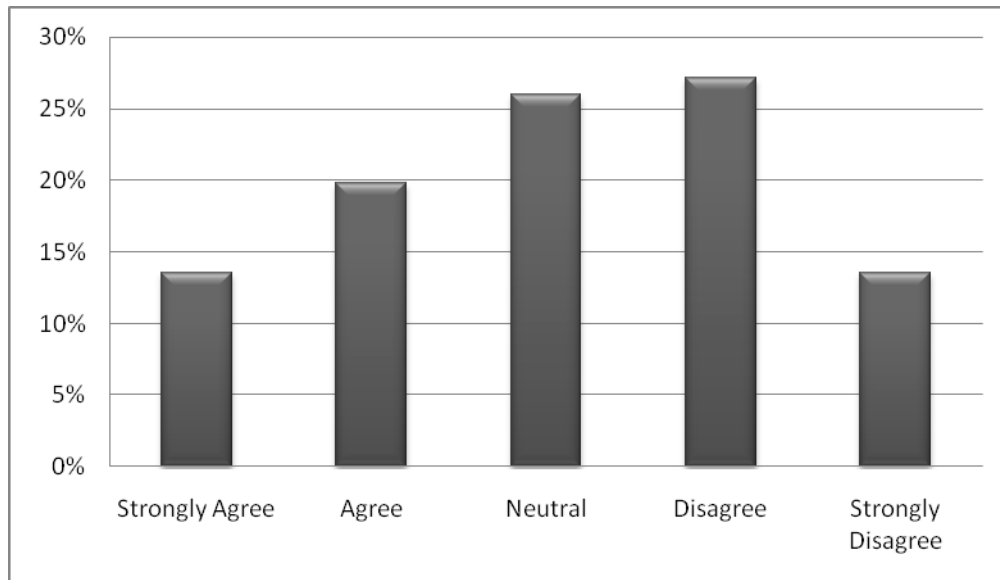


Figure 9 – Negative Impact of Capital Deficiency on Operations

In their study to delineate capital budgeting processes in small firms, Danielson and Scott (Danielson & Scott, 2006) noted that a majority of small business owners do not have financial expertise due to their educational background (i.e., according to their study, 52% of the business owners in the sample population did not have a college degree). We can compare this with the self-reported financial knowledge of our sample. We asked our sample about their financial expertise in the beginning stages of their enterprise. As presented in figure 10, although 29.5% of the respondents said that they were “Novice”, a large majority had some level of financial expertise and 3.8% evaluated their knowledge at the expert level.

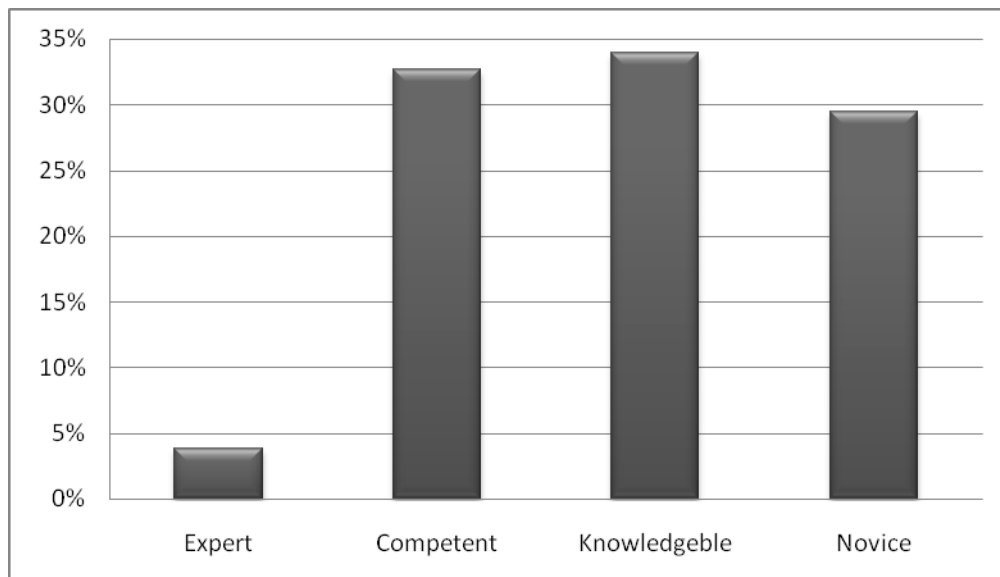


Figure 10 – Owner’s Financial Expertise at Enterprise Startup

Questions 12 and 13 were an attempt to analyze the function of outside investors in

an SME. Question 12 requested data on activity of outside investors in the business.

A significant number of the sample (71.3%) reported that they considered their investors as “not active”, while the rest of the sample

was distributed as follows: 13.0% “Very Active”; 7.4% “Somewhat active”; and 8.8% “Fairly inactive”.

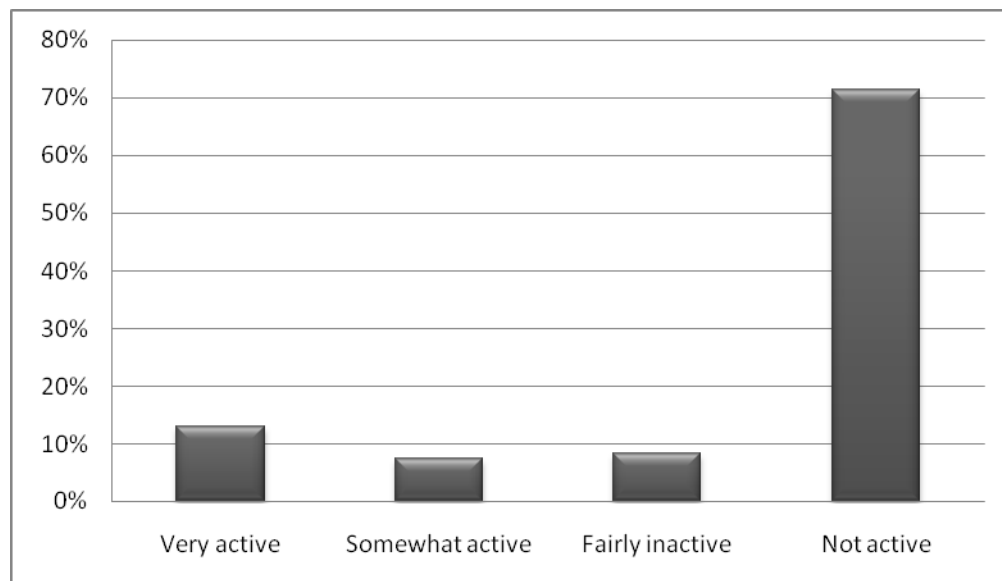


Figure 11 – Investor involvement in activities of the firm

Question 13 asked about the value of involvement from outside investors. Based on the responses from companies who reported that they are taking outside management support from investors (67 of

162), 56.7% evaluated the investors help as either very helpful or somewhat helpful, while 37.3% of them evaluated this assistance as somewhat or very distracting and 6% rated the factor as neutral.

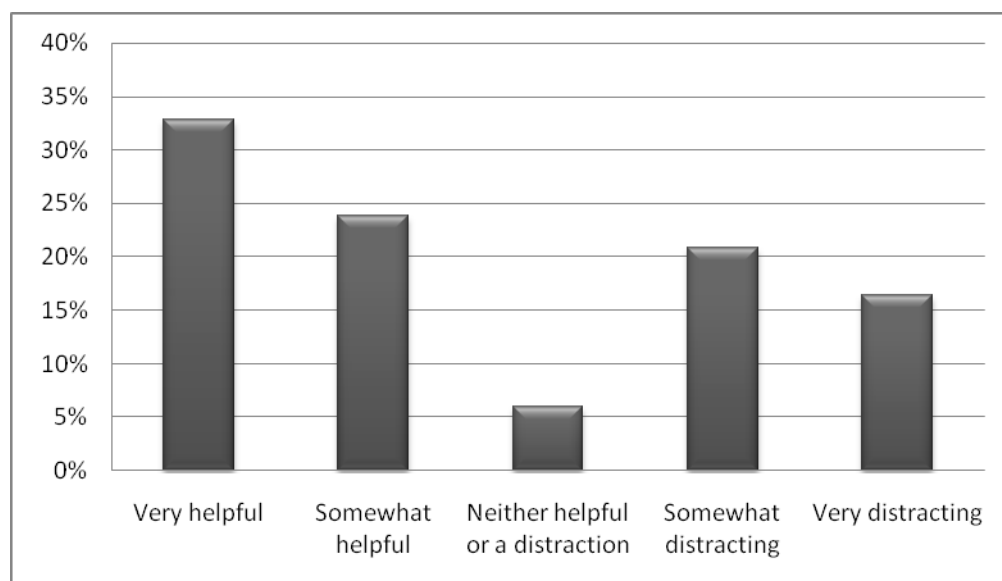


Figure 12 – Satisfaction with outside support

With the evolution of the strategic management phenomenon filtering down to SMEs in the 90s, the concepts of rational planning and written business plans/strategic plans have become expected core management responsibilities. While, on paper, planning is an indispensable part in today's large companies, a recent study by Gibson and Cassar (Gibson & Cassar, 2005) cast doubt on the causal relationship between planning and performance, even in small firms. Their findings may cause the data from questions 6 and 26 – 28 to be interpreted differently because of the already acknowledged survivor bias present in our sample. However, the raw data from the survey shows that 67.2% of the companies surveyed have a written business plan, and 71.6% of those who had plans reported that they were helpful in raising fund. In addition, historically, 69.7% noted that they had completed either "detailed" or "some" business planning process prior to originally trying to raise money for their startup venture.

in the ASBDC sample, that some financing options may be more readily available as well as more acceptable to the small business community than others.

SUMMARY AND CONCLUSION

The primary purpose of this study was to gain a better understanding of the knowledge and the practices of small businesses in financing their operations, both startup and going concerns. Some of the preliminary evidence from the survey verifies other existing research, such as average number of SME owners and standard sources of financing - both internal and external. (As an example, it appears that commercial banks continue to be significant sources for small business growth funds.) However, this survey went further in trying to identify the owners' attitudes towards

IMPLICATIONS FOR FUTURE RESEARCH

Future research will involve assessments and analysis of the survey data in an attempt to identify correlational relationships and to gain a better understanding of SME financing. The authors' intent in administering the survey was to evaluate both the ability of the respondent population to obtain necessary organizational financing and their attitudes toward various financing options. Further analysis of the information contained in the study should provide the small business community with valuable information concerning financing for their businesses.

Additional opportunities may be available through providing the survey instrument to researchers in other geographic locations in order that they may duplicate the research and compare results to our findings. Such comparisons could show, despite the survivor bias evident

funding options, their outside investors, and their financing options.

The resulting information from these questions will provide the authors with rich continuing research opportunities concerning SME financing. With the knowledge gained through this research we hope that more specific guidance can be provided to owners and managers of small businesses concerning both methods and options for financing future growth.

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DEVELOPMENT OF A REVENUE MANAGEMENT CHECKLIST

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ABSTRACT

This paper develops a checklist for use by small business managers to support revenue management strategy. Based on the revenue management literature and a study of small businesses, the checklist scales measuring major dimensions of revenue management are examined for evidence of construct validity. The findings suggest that the checklist scales are valid measures of small business revenue management practice, with support provided for both their internal and external validity. Results offer small business managers a simple, readily applicable and valid checklist to measure key variables essential to the planning, implementation, and evaluation of their revenue management strategy.

INTRODUCTION

Businesses seek to optimize revenues by practicing revenue management. Revenue management, sometimes called yield management (Boyd & Bilegan, 2003), focuses on inventory and product/service availability in tandem with dynamic pricing decisions. Its use has gradually spread from large businesses in industries such as transportation, hotels, and retailing (Talluri & Van Ryzing, 2004) to small businesses. In fact, small businesses may find that revenue management can assist them in competing with larger firms (Gold, 1964; Pineda et al., 1998; Smeltzer, Fann, & Nikolaisen, 1988; Weinrauch et al., 1991) given its positive effects on sales revenue in small businesses (Shields, 2006).

Many small businesses, however, may lack the sophisticated technology, staff, and other resources that might facilitate more widespread application of known revenue management strategies. A methodology such as a checklist, for tracking and managing the most critical information required for maintenance of a simple revenue management system, could enable

even micro-businesses to take advantage of the potential revenue benefits to be derived from revenue management. A checklist allows for the organization of information and systematic review of progress toward a goal while requiring a minimum of resources to be devoted to its application and upkeep. Many of the large public accounting firms use decision aids such as a checklists in audits where their use has been shown to produce audit results that are more effective, efficient, and consistent (McDaniel, 1990).

Shields (2006) investigated the use of revenue management in small businesses and its effects on sales revenue, revealing practices most commonly employed and the extent to which they are used. Building on the findings from this prior research¹, the purpose of this paper is to present a valid revenue management checklist that can be employed in practice by small businesses to plan, implement, and evaluate a revenue management

strategy. Its results will offer small business managers a simple, readily applicable and valid checklist grounded in empirical evidence to measure key variables essential to their revenue management strategy. The overriding concern of measurement is validity or the degree to which “empirical evidence and theoretical rationales support ... the inferences and actions” taken as a result (Messick, 1989, p. 13). Small businesses, often facing limited resources and time, may take significant actions based on the results of checklists and similar measures; therefore, it is incumbent on small business consultants and others who develop and advocate such instruments to seek to ensure their validity.

The next section presents a review of literature on the major constructs associated with revenue management practice. This is followed by development of the checklist, including methods and results; discussion of its validity; implications; and conclusions.

Review of the Literature

Revenue management practices have been associated with increased sales and related outcomes in both large and small businesses. Some airlines have seen revenues increase by seven percent as a result of revenue management applications (Marmorstein et. al., 2003). In prominent examples of well-known companies, Marriott estimates that revenue management added \$150 million to \$200 million to sales of \$10 billion in 1996 and added \$400 million in 1998 (Marriott & Cross, 1997; Tomplin, 1999) while National Rental Car attributes a \$54 million turnaround in its revenues to implementing a revenue management system (Geraghty & Johnson,

1997). Higher revenue also has been reported in small rural businesses (Shields, 2006) and revenue management practices are associated with related outcome measures that enable the generation of higher revenues in small business restaurants (Shields and Shelleman, forthcoming).

Revenue management is commonly viewed as “...selling the right product to the right customer at the right time for the right price” (Smith et al., 1992). In more technical terms, it has been characterized as a process dealing with acceptance and refusal of orders by employing differential pricing strategies and stop sales tactics to: 1) reallocate capacity, 2) enhance the reliability and speed of product or service delivery, and 3) realize revenue from change order responsiveness (Harris & Pinder, 1995).

The practice of revenue management is employed in a broad spectrum of industries (e.g., banking, broadcasting, electric utilities, healthcare, hospitality, printing, telecommunications, and transportation) (Secomandi, Abbott, Atan, & Boyd, 2002). Because most of its history has been in large businesses, the bulk of the literature on its use is concentrated there and our review of the revenue management literature and examples of practice are, of necessity, drawn from these limited sources.

Three characteristics are associated with companies that first used revenue management: 1) perishable products; 2) high fixed costs in the form of capacity costs; and

3) the ability to segment customers (Weatherford & 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. Data from the reservations systems allows airlines to segment their customers into groupings such as leisure and business travelers. With these empirically derived categories, the companies can predict the demand for specific flights and adjust fares and seat availability to maximize revenues across segments. In order to make them available for business travelers who are traveling at the last minute, seats are withheld for up to a few hours before a flight. Business travelers are willing to pay more for those seats than leisure travelers who may have reserved seats many weeks earlier, with the net result of more revenues generated for the airline.

Businesses can practice and benefit from revenue management with only some of the trademark characteristics in place. Many small businesses have limited capacity for providing products and services (e.g., taking orders, shipping, serving customers). Capacity is perishable in the sense that a business spends only a limited sum over a fixed period of time to acquire and transform resources to produce sales (Elimam & Dodin, 2001). Thus, based on capacity limits, revenue management is appropriate for adoption and practice in even very small businesses.

Revenue management practices can be broken into four main elements or categories: 1) tracking customers' demand for products and services by accessing and recording data; 2) segmenting customers by analyzing those data; 3) targeting customers according to their differential demand and using the demand information to limit supply; 4) pricing according to each segment's willingness to pay (Cross, 1997; Talluri & Van Ryzin, 2004; Weigand, 1999).

Tracking

The process begins with tracking customers' demand. Customer demand for products and services is tracked with the use of reservation and data warehouse systems (Berman, 2005; Graham, 1998; Talluri & Van Ryzin, 2004). Tracking customer data with regard to demand, shopping, and buying is facilitated by technologies such as ATM machines, debit cards, point-of-sale scanners (barcodes), websites, and reservation systems. Where available, such systems offer companies an accessible source of customer data.

Analysis

After customer data are collected, a second element of revenue management practice is the analysis of the data gathered, followed by identification of customer segments (Talluri & Van Ryzin, 2004). Information on profitability and patterns of differential demand become apparent through analysis (Talluri & Van Ryzin, 2004). By segmenting customers into groups based on their preferences, businesses can discover differences in willingness to pay. These differences can then be exploited to increase revenue (Weigand, 1999). Criteria for segmentation often vary by industry. For example, in a hotel, customers may be segmented by the number of nights they stay (e.g., one night versus several nights) and by room type (e.g., number of beds) (Talluri & Van Ryzin, 2004).

Targeting

Targeting customers according to their differential demand and limiting supply by demand is the third major element of revenue management. Information on differential demand can be applied to design new products and services to target specific customer segments' needs (Talluri & Van Ryzin, 2004). For example, banks use data

mining to build models to identify customer segments and then to identify those customers who are most likely to purchase new product offerings (Hormozi & Giles, 2004). The ability to alter supply by customer segments according to forecasts of demand is another area important to effective revenue management (Geraghty & Johnson, 1997). Limiting supply by demand involves using inventory controls. For example, hotels manage their inventory of rooms by length of stay so that typically customers wanting to stay one night during peak mid-week times have fewer rooms available for reservations than those wanting to stay multiple nights (Marriott & Cross, 1997).

Pricing

The fourth major element of revenue management practice is pricing according to each customer segment's willingness to pay (i.e., demand). Applying inventory controls to limit supply according to demand across customer segments reserves supply for the customer segments who are willing to pay more (McGill & Van Ryzin, 1999). An example of this practice can be seen in Marriott's use of daily demand forecasts to adjust the rates on 160,000 hotel rooms in

Marriott, Courtyard, and Residence Inns according to length of stay and length of advance purchase (Marriott & Cross, 1997).

Rather than altering capital investment, pricing can be used to bring demand and supply into balance as well (Weigand, 1999). For example, rental car companies often reduce prices on weekends in locations with many business travelers on weekdays (Geargthy & Johnson, 1997). Similarly, delivery businesses balance supply and demand during peak demand times (e.g., holiday gift-giving times) by raising rates instead of pursuing more costly options such as adding capacity (Weigand, 1999). In fact, in many settings, prices tend to be increased during busy periods (e.g., a restaurant's dinner periods on Fridays and Saturdays) and decreased during slow times in order to shift price sensitive customers from periods of high demand to periods of low demand (Cross, 1997).

These four primary elements of revenue management practice identified in the literature formed the basis for the development of the Revenue Management Checklist. Development of the checklist is discussed in the following section of the paper.

Development of the Checklist

The validity of an instrument such as a checklist to assess revenue management practices is a consideration to ensure that key variables are not missed or that time and effort are not wasted collecting and analyzing data that aren't relevant to the issue at hand. When a construct like revenue management is translated into a questionnaire or checklist, implicit assumptions are made about its meaning or domain. The instrument development process tests those assumptions. This examination of construct validity

eventually takes place over time with consideration of evidence relative to content (substantive component), the internal structure of the measure (structural component), and its relation to outside variables (external component) (Loevinger, 1957) as the measure is used and results recorded. The purpose of the present study was to examine and to provide preliminary evidence of validity that would facilitate its translation to practice so that small business managers might experience immediate benefit.

The substantive and structural elements, concerned with internal validity, occurred with the development of potential checklist items based on the literature review and the subsequent statistical analysis of the empirical data that produced internally consistent groupings of checklist items, i.e., scales. The last element, addressing external validity, was addressed by examination of correlations and regression analysis that explored the relationship between revenue management practices and sales revenue in small businesses.

The four elements of revenue management practice discussed in the literature review formed the basis for the development of the checklist. Items for the measures were generated from the literature and the wording was adapted as necessary to be applicable to small businesses. Response categories were on seven-point Likert-type scales, ranging from Strongly Agree to Strongly Disagree.

Data were collected from 87 small businesses using a semi-structured questionnaire format administered by mail. Respondents' annual sales averaged \$1,214,447, ranging from \$6,000 to \$9,300,000, with an average of 10 employees. Thirty-six percent of the businesses were service, 24% were manufacturing, 23% were retail, 11% were multiple business types, 5% were construction, and 1 % were wholesale. Slightly over half of the respondents were female (54%).

Following the development of questionnaire items and administration of the questionnaire, item responses were subjected to principal component factor analysis, using an Oblimin rotation with Eigen values greater than one, in order to confirm groups of interrelated items

comprising scales. Items included for a factor loaded at .50 or greater on that factor. After refinement, Cronbach's alpha was used to assess the internal reliability of the final scales. *Gathering Information from Customers*

For the revenue management practice element that addresses accessing data or gathering customer information, respondents were asked, "To what extent do you use the following methods to gather information from your customers?" The items were factor analyzed using Principle Components with Oblimin rotation to examine common variance. A three-factor solution that explained 64 percent of the variance emerged; however, when Cronbach's alphas were run on each of these scales only the first factor had an acceptable reliability score (Nunnally, 1978). This scale, Gathering Information, has three items as shown in the Appendix. *Recording Information about Customers*

To assess the revenue management element of recording information or data about customers, respondents were asked, "To what extent do you record the following information about your customers?". A three-factor solution that explained 64% of the variance emerged from the factor analysis. This resulted in three scales that addressed recording information: Record Basic Data, Record Shopping Data and Record Profitability Data (see Appendix for items). The Cronbach's alphas on all three scales were acceptable (see Table 1) (Nunnally, 1978).

Analyzing Information

With regard to the practice element of analyzing customer data, respondents were asked, "To what extent do you do the following with customer information?". These responses resulted in a two-factor solution that explained 72% of the variance. The factors were labeled Segment and Analyze and Take Action. The resulting

scales (see Appendix for items) demonstrated acceptable Cronbach's alphas (see Table 1) (Nunnally, 1978).

Responding and Adapting to Customers

With regard to the revenue management practice element that addressed targeting and pricing in order to respond and adapt to customers, respondents were asked, "To what extent do you do the following to

adapt to your customers?" Factor analysis resulted in a two-factor solution that explained 60% of the variance with scales called Target Products/Services and Price Dynamically (see Appendix for items). The scales showed acceptable Cronbach's alphas (see Table 1) (Nunnally, 1978).

Checklist Scales	Cronbach's Alpha
Analyze and Take Action	.88
Gathering Information	.76
Price Dynamically	.65
Record Basic Data	.89
Record Profitability Data	.84
Record Shopping Data	.92
Segment	.92
Target	.63

Level of significance ** = $\leq .01$; * = $\leq .05$

Table 1 Cronbach's Alphas for the Checklist Scales

To examine relationships among the scales, Pearson correlations were run. As shown in Table 2, results demonstrated positive correlations among them, many of which were statistically significant. In addition, correlations were examined between the checklist scales and a dependent variable, sales revenue, that theory suggests is associated with these constructs. Likewise shown in Table 2, the checklist scales demonstrated correlations with average monthly sales as predicted by theory.

Checklist Scales	1	2	3	4	5	6	7	8
1. Analyze and Take Action								
2. Average Monthly Sales	.40**							
3. Gathering Information	.46**	.14						
4. Price Dynamically	.32**	.06	.10					
5. Record Basic Data	.65**	.15	.66**	.26				
6. Record Profitability Data	.68**	-.01	.28	.41*	.44**			
7. Record Shopping Data	.75**	.23	.56**	.27	.62**	.50**		
8. Segment	.75**	.51**	.35**	.23	.33*	.52**	.52**	
9. Target	.46**	.24	.10	.61**	.34*	.38*	.29	.33*

Table 2 Correlations among the Checklist Scales

Although the correlations shown in Table 2 suggest relationships among the variables, multiple regression was employed to estimate how well the presumed antecedent revenue management practice factors explain variance in the consequent variable of interest, sales revenues. The

checklist scales measuring the elements of revenue management practice were the independent variables and monthly sales revenue for 2000 was the dependent variable in the regression model. As shown in Table 3, the model was significant ($F = 2.73$, $p = .01$) with an Adjusted R^2 of .16.

Checklist Scales	Regression Coefficient	t for Variable	F for Equation	Total Adj R^2
Analyze and Take Action	.03	0.17	2.73***	.16
Gather Information	-.12	-0.90		
Price Dynamically	.03	0.18		
Record Basic Data	-.00	-0.01		
Record Shopping Data	.18	1.22		
Record Profitability Data	-.21	-1.45		
Segment	.44	2.93***		
Target	.10	0.69		

Level of significance *** = $\leq .01$; ** = $\leq .05$; and * = $\leq .10$

Table 3 Multiple Regression Analysis of Predictive Effects on a Dependent Variable

DISCUSSION

Results of the administration of the questionnaire measuring revenue management practices in small businesses suggest that the Checklist scales are valid measures. The scales map to the four elements of revenue management practice identified in the literature as follows. Gathering Information from Customers (one scale) and Recording Information about Customers (three scales) address the domain of the first element, tracking customers' demand for products and services by accessing and recording data. Analyzing Information (two scales) addresses the domain of the second element, segmenting customers by analyzing those data. The third element of revenue management practice, targeting customers according to their differential demand and using the demand information to limit supply, is tapped by Target (one scale) in the category Responding and Adapting to Customers. Pricing (one scale) in the category Responding and Adapting to Customers addresses the domain of the fourth element, pricing according to each segment's willingness to pay. These results showing that the data collected from small business managers in response to the scales were confirmed by statistical factor analysis showing distinct dimensions of items suggest that the measure demonstrates substantive validity.

Acceptable internal reliability coefficients, i.e., Cronbach's alpha, provided preliminary evidence of the internal structure of the scales, suggesting that they are structurally valid measures of the elements of revenue management. Pearson correlations and regression analysis that examined the predictive effects of the

revenue management practices on reported sales offers evidence that the measures also demonstrate the external component of validity by relating to other variables in ways predicted by theory. In sum, the questionnaire scales that form the Revenue Management Checklist appear to represent a measure of revenue management practice in small business settings that demonstrates construct validity, including its substantive, structural, and external facets (Loevinger, 1957).

IMPLICATIONS

The Revenue Management Checklist developed in this study offers a practical, inexpensive, and readily applicable tool that can provide the basis for a systematic program to initiate or extend revenue management strategy. It can alert managers to needed changes to their existing operations as well as enable them to better understand the relationship between existing practices and revenue management potential so that they might be incorporated into the revenue management strategy. For ease of administration, the Checklist can be used as a pencil and paper inventory as shown in the Appendix or it can be automated. An automated version is under development to offer small business managers the ability to administer the Checklist to multiple employees (e.g., leaders of different product/service lines) and tabulate their responses quickly at minimal cost.

The first four categories in the Checklist address gathering and recording information about customers. How complete is the existing information that the business routinely gathers about its customers? This can be assessed by filling out the Checklist items in the first four categories. For

example, under Part II, Record Profitability Data, a manager should ask, “Are there gaps, such as “Annual dollar purchases?” In this case, the gap can be filled by recording transactions properly. Software such as Quicken/QuickBooks has features that include categories, memos, and tags that can be used to generate a report on annual purchases. The Checklist should stimulate the manager to develop a procedure when he/she uses the software that makes the information available for report generation. Customer Relationship Management software, QuickBooks, or Quicken can be employed to systematically record and expand the information base a business has on its customers. Together Part I, Gathering Information from Customers, and Part II, Recording Information about Customers, identify the necessary information set that a business should build as part of a revenue management program.

Once a business has Parts I and II of the Checklist in place, i.e., is systematically recording relevant customer information, the business then is in a position to address Parts III and IV. In Part III of the Checklist, Segment signals the need to establish categories of customers. These categories should be based on common differentiators among customers that are relevant to that business such as demographics (e.g., age, gender, income) or behavioral-based characteristics (e.g., product use, purchase frequency, convenience, shopping behaviors). Once categories have been created, then the small business manager needs to decide on the importance of the categories based on factors such as the number of customers in or sales revenues generated by the category. Once this is accomplished, then the information associated with

more revenue-critical segments can be analyzed. Relevant information might include items such as the frequency of purchase, SKUs purchased, products desired but not available (i.e., stock outs, products not stocked), and complaints.

Part III, Analyze and Take Action guides the process that the manager should take after segmenting customers and the process to follow of taking action in the form of targeting products/services and pricing for revenue management. The outcome of completing Part III of the Checklist, Analyzing Information, will suggest actions addressed in Part IV of the Checklist, Responding and Adapting to Customers.

The section, Target Products and Services, would suggest to the manager to take actions to target products and services for a specific customer segment. For example, in response to feedback from a revenue-critical customer segment about products that are not stocked or available, the manager may expand the product line.

Additional actions in a revenue management strategy might be prompted under Part IV, Price Dynamically. Analysis of busy and slow periods might suggest pricing policies such as discounting during slow periods (e.g., hour of day, day of week, quarter of the year). Further, this section prompts a manager to price differently for different customer segments, such as, for example, structuring and offering tiered services. Tiered services allow the customer to choose the level of service for which they are willing to pay. For example, a florist might offer flowers on a cash and carry basis; bouquets with ribbons; bouquets with ribbons and a card; bouquets with ribbons, card, and delivered; or bouquets with ribbons,

card, and delivery at a specific date and time.

The Checklist can be applied for three phases of a revenue management strategy and program in small businesses: 1) to plan a program and set goals, 2) to guide implementation, and 3) to evaluate an existing program. The use of the Checklist in a cycle of goal setting, guiding, and evaluating provides a systematic implementation of a revenue management strategy for small businesses that is both efficient and effective.

CONCLUSION

In conclusion, this paper presents empirical evidence that supports the internal and external validity of the Revenue Management Checklist. The validated Checklist offers small business managers a simple, inexpensive tool that they can employ with confidence to initiate and manage their revenue management strategy.

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FOOTNOTE

The data and statistics employed for this study are drawn from Shields, 2006.

your products and services to your specific customers to both better serve them and at the same time to maximize your sales revenue.

By using this checklist, you will identify gaps in your current practices. This information will allow you to take timely corrective actions and expand your procedures to more directly affect

APPENDIX

The Revenue Management Checklist

INTRODUCTION

The Revenue Management Checklist inventories and tracks your revenue management strategy. Revenue management is the process of matching

revenue. The checklist also will help you to identify appropriate goals for your operations. Frequent monitoring will enable you to adjust goals and implementation strategies as you become more adept at revenue management, your competitive environment changes, and your business grows.

DIRECTIONS

On the following pages are items describing actions that small businesses often take to implement a revenue management strategy. For each item, simply use the checkbox to indicate with a check (✓) if you currently are engaged in that activity on a regular basis.

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The Revenue Management Checklist

Part I. Gathering Information from Customers

Indicate whether you use the following methods regularly to gather information from your customers.

Gather Information

- ☐ *Email from customers*
- ☐ *Letters from customers*
- ☐ *Telephone calls from customers*

Part II. Recording Information about Customers

Indicate whether you regularly record the following information.

Record Basic Customer Data

- ☐ *Customer name*
- ☐ *Email address*

- ☐ *Mailing address*
 - ☐ *Telephone number*
 - Record Shopping Data***
 - ☐ *Complaints*
 - ☐ *Compliments*
 - ☐ *Frequency of purchases*
 - ☐ *Number of purchases*
 - ☐ *Product/services wanted but not available at the time*
 - ☐ *Products/services wanted but not provided*
 - ☐ *Returns*
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The Revenue Management Checklist

Part II. Recording Information about Customers

Record Profitability Data

- ☐ *Annual dollar purchases*
- ☐ *Customer specific costs*
- ☐ *Demographics*
- ☐ *Least preferred product/service features*
- ☐ *Most preferred product/service features*
- ☐ *Profitability*

Part III. Analyzing Information

Indicate whether you regularly do the following with customer information.

Segment

- ☐ *Group customers into categories*
- ☐ *Count the number of customers in each category*
- ☐ *Analyze information by category*
- ☐ *Weigh the importance of categories*

Analyze and Take Action

- ☐ *Review the information*
- ☐ *Set goals*

- ☐ *Take actions based on analysis*
- ☐ *Track trends*

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The Revenue Management Checklist

Part IV. Responding and Adapting to Customers

Indicate whether you regularly do the following to adapt to your customers.

Target Products and Services

- ☐ *Provide better services to more profitable customers*
- ☐ *Set aside products/services for last minute customers for a premium price*
- ☐ *Target specific products/services to certain*

customers and/or segments of customers

Price Dynamically

- ☐ *Discount prices during slow periods*
- ☐ *Mark up prices during busy periods*
- ☐ *Price products/services differently for different customer segments*

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DOES EXPERTISE MATTER IN AN EVER CHANGING AND UNCERTAIN ENVIRONMENT? A STUDY OF THE ENTREPRENEURIAL PROCESS OF SERIAL AND NOVICE ENTREPRENEURS

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ABSTRACT

This study adds to the literature on serial and novice entrepreneurs by focusing on the process of entrepreneurship and the role of different knowledge structures in this process. We use theories from cognitive psychology that relate to experts and novices, and their use of prior knowledge in the creation of knowledge structures. Using a sample of 121 novice and serial entrepreneurs, we find that knowledge structures, as a function of prior experience in running a business venture, do not play a role in differentiating these entrepreneurs regarding the process of entrepreneurship. The implications and limitations of the study are discussed.

INTRODUCTION

Research suggests that prior knowledge plays an important role in differentiating performance of novice and serial entrepreneurs (Westhead & Birley, 1993; Westhead & Wright, 1998; Westhead, Ucbasaran, & Wright, 2005). We divide this prior knowledge into two parts – startup specific knowledge and industry specific knowledge. We define startup specific knowledge as knowledge gained by an individual when the individual founded two business ventures that they owned and operated before starting their current (third) business venture. This knowledge is tacit in nature and extremely difficult to codify or transfer to others. Further, we define industry specific knowledge as information concerning a certain industry that is available at a given point in time, and that could be acquired by individuals who are willing to invest resources in gaining that information. This may include such information as an understanding of the size and structure

of the market and the key success factors in the market.

The role of knowledge and decision making in uncertain environments has been discussed by scholars like Arrow (1964), Dixit & Pindyck (1994). Decision-making in such environments may be based upon limited information. Environmental uncertainty, complexity and ambiguity may further exacerbate the challenges associated with making decisions from limited information. Decision-making by entrepreneurs may be prone to mistakes associated with these circumstances. If prior information is of limited use and if complexity and ambiguity hamper decision making skills (that lead to performance), does an entrepreneur's startup specific knowledge actually matter? If so, what impact does type of knowledge - industry specific and startup specific - have on the performance of entrepreneurs?

This research paper examines whether serial entrepreneurs have startup

specific knowledge that makes them superior to entrepreneurs who do not have this startup specific knowledge as far as behaviors related to starting a new business venture are concerned. As prior research on serial, novice, and portfolio entrepreneurs have looked at the differences in traits, attitudes and performance between novice, portfolio and serial entrepreneurs (Westhead & Birley, 1993; Westhead & Wright, 1998; Westhead, Ucbasaran, & Wright, 2005), and in accordance with Aldrich (1999), Davidsson (2004), and Gartner (1985), we focus on the process of entrepreneurship by studying behaviors or actions related to the startup process. In their review of the focus of entrepreneurship research, Ucbasaran, Westhead & Wright (2001) found that research on the entrepreneurial process has primarily looked at the three areas of opportunity identification and information search, acquisition of resources, and strategies to grow the business. Therefore, in keeping with this trend, we focus on resources (both tangible as well as intangible) as far as finances for starting the new business venture and network/ties used in starting the new business venture are concerned (based on the premise that, during the new venture creation process, individuals are seeking not only resources such as equipment, space, employees and money, but are also seeking advice and information) (Birley, 1985); the method of opportunity search and discovery used by the entrepreneur (Herron & Sapienza, 1992), and the firm's performance. We also controlled for factors such as motivation to start the business, age, education, and gender of the entrepreneur, and industry.

This study furthers the understanding about these types of

entrepreneurs by taking into account how different types of knowledge (specifically industry specific knowledge, and venture startup knowledge) might play a role in explaining differences in performance between these two sets of entrepreneurs. This we believe is important because, if we as researchers can distinguish what type of knowledge is better aligned with firm performance, we could better inform future generations of potential entrepreneurs about the skills that would be most essential for their success. For purposes of this study, we define entrepreneurs as those individuals who create a new business around an innovative product or service. We focus on the process of entrepreneurship by applying theories from cognitive psychology that relate to experts and novices, and their use of prior knowledge. We define serial entrepreneurs as those individuals who founded two business ventures that they owned and operated before starting their current (third) business venture, and novice entrepreneurs as those who have not previously started any business ventures before starting their current venture.

We explore potential differences caused by the presence or absence of prior knowledge between serial and novice entrepreneurs and reveal how these differences affect factors such as networks/ties used, opportunity search and discovery methods, and the firm's performance¹. The research questions

¹ The variables of network/ties used, opportunity search and discovery, and firm performance were chosen because, as suggested by Aldrich, (1999), Davidsson (2004), and Gartner (1985), we intend to study the process of entrepreneurship and not traits and characteristics of entrepreneurs.

that this study addresses are as follows: what kind of prior knowledge is more important in affecting the performance of business ventures, and more specifically, does a lack of startup experience negatively affect novice entrepreneurs?

This study provides a number of valuable contributions to entrepreneurial pedagogy and theory. Pedagogically, it generates knowledge about the teachable and learnable skills that entail successful entrepreneurship (Gustavsson, 2004; Ucbasaran, Westhead, and Wright, 2001). This paper also extends theory as it makes use of the literature from the field of cognitive psychology in an effort to further previous research on the subject of serial and novice entrepreneurs.

Theory development and hypothesis generation

Cognition theories such as the chunking theory (Chase and Simon, 1973; Chase and Ericsson, 1982), the knowledge-based paradigm (Craik and Lockhart, 1972) and template theory (Gobet & Simon, 1996) propose that individuals with prior knowledge in a particular domain organize problems at a more abstract level than do individuals without such prior knowledge. This is done with the help of the formation of knowledge structures, which are quite simply templates that individuals make use of in order to give a certain environment form and meaning (Neisser, 1976). “Knowledge structures represent organized knowledge about a given concept or type of stimulus” (Fiske & Taylor, 1984: 149). These knowledge structures help interpret, provide a basis for inference, and increase the speed of

the problem solving process by allocating attention, facilitating encoding and retrieving the stored information from memory (Walsh, 1995).

Literature on information processing theory suggests that individuals with “entrepreneurial expertise” (serial entrepreneurs) develop certain knowledge structures and process information differently than individuals who have not developed these knowledge structures (novice entrepreneurs) (Mitchell, Smith, Seawright & Morse, 2000). This suggests that individuals who are experts in the *entrepreneurial domain* (Mitchell, Busenitz, Bird, Gaglio, McMullen, Morse, & Smith, 2007) are capable of either possessing or acquiring certain entrepreneurial knowledge structures that would enable them to make use of information significantly better than individuals without expertise in the entrepreneurship domain (Baron & Henry, 2006; Mitchell, 2005; Mitchell & Chesteen, 1995). In addition, individuals with greater business ownership experience should be more prone to discover new business opportunities (McGrath & MacMillan, 2000; Shane, 2000).

As all serial entrepreneurs in our study have had the experience of two previous business ventures before the current one, and all the novice entrepreneurs have no prior engagement in the entrepreneurial process², we would expect behavioral differences between serial and novice entrepreneurs in the way they go about starting a new business venture. An observable difference between serial and novice entrepreneurs is the degree of schema

² We controlled for factors such as education and age so as to reduce mediating variables

elaboration, content complexity and cross linkages with other schema. Beyond a certain level of preparation, experience and education do not inevitably lead to more elaborate and complex schema. The availability of these patterns is the mechanism that produces comparatively more accurate and faster opportunity identification in serial versus novice entrepreneurs (Chi, Glaser & Reis, 1982).

The study by Westhead et. al. (2001) focused on the traits, characteristics, and motivations of serial and novice entrepreneurs. We, however, focus more on the process of the entrepreneur in the startup of their latest business venture (Aldrich, 1999; Davidsson, 2004; Gartner, 1985) and how this process is influenced by cognitive differences between these entrepreneurs. Therefore, the areas within which we chose to study these differences are the networks/ties formed by prior relationships, sources of finance, the methods used in search and discovery of the business idea, and the performance of the firm.

Networks - It is known that prior relationships are critical before an organization is formed (Aldrich & Zimmer, 1986; Hills, Lumpkin & Singh, 1997), and that in order to understand organizational emergence, one needs to study individual relationships of the entrepreneur, how these relationships are established, and the ways in which commitments and trust of other individuals essential to the functioning of the venture are gained (Gartner, 1985; Gartner & Bush, 1999). Westhead and Wright (1998) suggest that personal and professional relationships could influence an individual's ability to access social, human, and financial capital necessary for a business venture.

It is also widely recognized that social networks play a central role in successful firm emergence and growth (Birley, 1985; Hansen, 1995; Hite and Hesterly, 2001; Larson and Starr, 1993).

Strong social networks tend to be more useful in the process of helping the entrepreneur recognize opportunities and formulate business concepts (Hills et. al., 1997). Entrepreneurs rely on their strong ties for advice, counsel and access to other resources as the firm might seem to have a highly uncertain future, i.e. a lack of legitimacy (Aldrich, 1999). As the firm begins to establish itself however, strong networks are less likely to possess the breadth of resources a firm needs to meet the increasing resource requirements characteristic of early growth (Hite and Hesterly, 2001). Therefore, the entrepreneur needs to rely upon members of a weak-tie network which would have the advantages of providing more resources (Dyer, 1994). These weak-tie networks are usually market-based, are likely to be less redundant, and reflect a larger and more powerful set of work-based ties (Burt, 1992; Hite and Hesterly, 2001; Uzzi, 1996). Therefore it could be argued that as serial entrepreneurs have learned to work successfully with certain individuals in their network over time, they are likely to make use of fewer individuals in their network but those who have more market specific information and knowledge to aid in the start of their current business venture. McGrath & MacMillan (2000) and Shane (2000) suggest that serial entrepreneurs are expected to have better contacts and access to market specific information. Serial entrepreneurs are expected to have better managerial and technical skills, better network of contacts, access to market specific

information and thus should be better equipped to take advantage of new business opportunities (McGrath & MacMillan, 2000; Shane, 2000). It is also suggested that serial entrepreneurs may learn from their initial entrepreneurial experience, thus adding to their skills (Stam et. al., 2006). Conversely, novice entrepreneurs, who have not previously worked with individuals in their network to start a business venture, will have to interact with a larger number of individuals before they come to understand which of these individuals will be of most value (i.e. useful).

As mentioned, entrepreneurs who have gained entrepreneurial expertise by starting previous business ventures before the current business venture would make use of knowledge structures to give the current environment form and meaning. These knowledge structures could be in the form of knowing which individuals are necessary as resources at particular stages in a firms' development or when faced by changes to the firm³. Therefore we would expect serial entrepreneurs to make use of a smaller number of network contacts in starting their current business venture. This discussion leads to our first hypothesis: Hypothesis 1) Serial entrepreneurs will make use of a smaller number of network contacts than will novice entrepreneurs in starting their current business venture.

Sources of Finance - Researchers such as Gartner (1985); Gartner & Bush

³ *These changes could represent internal changes such as change in management or external changes such as a change in the competitive environment.*

(1999) and Westhead & Wright (1998) have suggested that personal and professional relationships could influence an individual's ability to access social, human, and financial capital necessary for a business venture. Therefore, access to capital is also associated with an individual's strong and weak networks/ties.

Serial entrepreneurs might have the privilege of greater access to funds by way of accumulated wealth from their previous business ventures, which they could use to invest in their current business. If personal assets are not used to invest in the business, they can be used (as collateral) to help secure financing from financial institutions such as banks (Singh and DeNoble, 2003). More importantly, however, many serial entrepreneurs have had the opportunity to develop a wider range of business ties/networks than have novice entrepreneurs, and these ties/networks could be influential in providing the serial entrepreneurs with funds that novice entrepreneurs might not have access to.

This discussion leads to our second hypothesis:

Hypothesis 2) Serial entrepreneurs are likely to use financial partners for a greater percentage of initial funding for their business than would novice entrepreneurs.

Firm Performance - Of the many factors that influence the performance of new ventures, one of the most important would be the entrepreneur who owns and operates the business venture. Recent evidence regarding the relationship between the founder's prior experience and firm performance has been established (Eg. Helfat, 2000; Holbrook,

Cohen, Hounshell, & Klepper, 2000). Also the literature cited previously suggests that individuals with prior knowledge (serial entrepreneurs) would have an advantage in assessing, encoding and reacting to situations over individuals who do not possess this prior knowledge (novice entrepreneurs). Thus, individuals with prior knowledge should increase the performance of a business venture when compared to business ventures operated by individuals who do not possess this prior knowledge (Chandler, 1996; Chase & Simon, 1973; Westhead & Wright, 1998). Hence, based upon this reasoning, one would expect that firms run by serial entrepreneurs would outperform firms run by novice entrepreneurs.

This brings us to our third hypothesis.

Hypothesis 3) Firms owned by serial entrepreneurs will financially outperform firms owned by novice entrepreneurs.

Opportunity Search and Discovery -

An individual recognizes opportunities and ideas that are related to information the individual already possesses (Venkataraman 1997, Shane 2000). Also, as information is a byproduct of the distinctive life experiences of an individual, the entrepreneur might have different sets of information (Fiet, 1996), and therefore some individuals might possess information that others do not have. This knowledge, whether gained from prior work experience, education, life experiences or other means gives rise to idiosyncratic knowledge structures, which in turn influence the individual's ability to understand, infer, and apply new information in ways that those lacking such knowledge would

find difficult if not impossible to replicate (Shane, 2000, Kemelgor et. al., 2005).

Research on the topic of opportunity search and discovery has shown that an individual's knowledge about markets, how to serve those markets, and knowledge of customers' problems influenced their discovery of business ideas (Shane, 2000). In addition, work by Ronstadt (1988) indicates that working in an industry tends to lead to the identification of more entrepreneurial opportunities. Therefore, we expect that there will be differences in the type of information and sources of that information used by individuals in choosing their current business venture. Researchers have also found that when novices and experts were given a certain situation to analyze, novices looked at the positives as well as the negative scenarios of the given situation, whereas experts looked only at the positives of the given situation (Chase & Simon, 1973; Chi, Glaser & Rees, 1982). Therefore realistic mental representations of complex and interacting factors (largely from experience) produces comparatively more accurate and faster opportunity identification in serial versus novice entrepreneurs (Chi, et. al., 1982). This suggests that novices would conduct a more thorough and deliberate search for opportunities as far as their knowledge structures are concerned, while serial entrepreneurs will make use of their existing heuristics and biases in making a decision about which business venture they should undertake. Following this reasoning, we propose that novice entrepreneurs will make use of their specialized education and hobbies to a greater extent in the search and discovery of opportunities than will

serial entrepreneurs, as those are the primary places that individuals have access to for searching for potential business opportunities (Fiet, 1996). Further we propose that serial entrepreneurs would use their occupations, on the job routines, and on the job technology to a greater extent than will novice entrepreneurs. This discussion leads to our final set of hypotheses:

Hypothesis 4a) Novice entrepreneurs will show higher levels of search and discovery using hobbies and specialized education as information channels in choosing their current business opportunity than will serial entrepreneurs.

Hypothesis 4b) Serial entrepreneurs will show higher levels of search and discovery using occupation, job routines, and on the job technology in choosing their current business opportunity than will novice entrepreneurs.

METHODOLOGY

DATA

Data was gathered by the use of a self-report questionnaire of one hundred and forty participants in three metropolitan cities in the U. S. The potential respondents were identified and invited to participate through local entrepreneurship furthering centers (e.g. Small Business development centers or area technology councils). The survey was conducted using an online format (web survey)⁴. Potential participants

⁴ *There are some drawbacks of a web based survey (Dillman 2000), but we were advised to do so by the entrepreneurship councils as they had easy access to the email databases of their clients.*

were sent an email through the entrepreneurship furthering center explaining the survey and its functions along with a link to our survey. The survey was sent out to two hundred and ninety eight individuals, out of which one hundred and forty responded, giving us a response rate of around forty seven percent. The initial analysis involved dealing with missing data, leaving us with one hundred and twenty one usable responses, sixty three of whom were novice entrepreneurs and fifty eight who were serial entrepreneurs. The average age of the companies was 8.4 years. Females accounted for eleven percent of the entrepreneurs, while males accounted for the remaining eighty nine percent. As all of the firms in the sample were privately held and the data are confidential, we were unable to independently establish the reliability of the data. However, the entrepreneurship furthering centers assured us of the representativeness of the sample.

MEASURES

Information on networks was gathered using a grid, wherein respondents entered the number of individuals they consulted with from each group⁵ for the startup and launch of their business. Information on initial financing for their business was gathered by asking respondents what percentage of their initial financing came from personal funds, family and friends, and

⁵ *Network grid included - Family, Friends, Previous company associates, Previous business owners, Other business owners, Workshops, Accountant, Attorney, University consulting/training, SBA services, Bank, Trade groups, Suppliers, Customers, Competitors, Local government sources, Business Consultants, University research laboratories, Other*

financial institutions other than family and friends. Financial performance data

Table 1 - Constructs used in the Survey

Construct	Measure
Resources Acquisition – Finance	What percentage of the financing came from financial backers other than family and friends? _____% What percentage of the financing came from your personal savings? _____%
Resource Acquisition - Networks	
Opportunity Discovery & Search for Information	5 point likert scale <ul style="list-style-type: none"> • Occupation • On-the-job routines • Job-related technology • Specialized education • Hobbies
Business Strategy	5 point likert scale <ul style="list-style-type: none"> • Expand businesses • Introduce new products • Take calculated risks • Make decisions under uncertainty and risk
Performance	Net profit after tax <ul style="list-style-type: none"> • Not profitable operating business • 0 – 2% of sales • 3 – 5% of sales • 6 – 10% of sales • Over 10% of sales

was gathered using net profit after tax as a percentage of sales. Finally, their reliance on proprietary information channels (knowledge structures) in choosing the business opportunity was gathered by asking respondents the extent to which the information channels used⁶, influenced their decision in starting the business. Additional details can be seen in Table 1 below.

⁶ Information channels included - Occupation, On-the-job routines, Job-related technology, Specialized education, Social relations/networks, Hobbies

We controlled for the following factors – size of firm, industry within which the firm operated, and the age of the firm. Even though our data are ordinal in nature, we used them in a regression analysis in accordance with Borgatta & Bohrnstedt (1980), Davidsson (2004), and Michell (1986) who claim that a rating scale is a very crude representation of an underlying interval scale and that the only difference is that as the rating scale is cruder, the measurement error is greater. Therefore,

we ran a logistic regression analysis on our data followed by a non-parametric statistical test (Mann-Whitney U) and nonparametric measures of associations firstly to identify the direction of our results, and secondly to confirm our findings from the regression.

RESULTS

Please refer to Tables 2, 3 and 4 for a summary of the analysis.

Table 2a-Descriptive Statistics⁷

Novice and Serial Entrepreneur		N	Mean	Std. Deviation	Minimum	Maximum
Novice	Net Profit After Tax as Percent of Sales	53	3.7170	1.49843	1.00	5.00
	Use of Networks	52	1.8462	3.82656	.00	25.00
	Investment from Financial Institutions	53	15.2830	32.71989	.00	100.00
	Occupation as Information channel	49	3.6122	1.28803	1.00	5.00
	On the Job Routine as information channel	50	2.7400	1.42585	1.00	5.00
	On the Job Technology as information channel y	49	3.1429	1.38444	1.00	5.00
	Specialized Education as information channel	50	3.2400	1.30243	1.00	5.00
	Network as information channel	50	3.2600	1.38225	1.00	5.00
	Hobbies as information channel	49	2.3469	1.46559	1.00	5.00

⁷ The descriptive statistics for the dependent variable for each level of the independent variable

Serial	Net Profit After Tax as Percent of Sales	47	3.1064	1.82058	1.00	5.00
	Use of Networks	48	3.0625	5.77377	.00	30.00
	Investment from Financial Institutions	47	26.3404	38.70304	.00	100.00
	Occupation as Information channel	47	3.5106	1.54459	1.00	5.00
	On the Job Routine as information channel	47	2.7872	1.50270	1.00	5.00
	On the Job Technology as information channel	47	3.0426	1.45897	1.00	5.00
	Specialized Education as information channel	47	2.7234	1.44014	1.00	5.00
	Network as information channel	47	3.1064	1.30607	1.00	5.00
	Hobbies as information channel	46	1.9565	1.19176	1.00	5.00

Table 2b - Summary Statistics⁸

		Net Profit After Tax as Percent of Sales	Use of Networks	Investment from Financial Institutions	Occupation as Information channel	On the Job Routine as information channel	On the Job Technology as information channel	Specialized Education as information channel	Network as information channel	Hobbies as information channel
Novice	Median	4.0000	1.0000	.0000	4.0000	3.0000	3.0000	3.0000	3.0000	2.0000
	Minimum	1.00	.00	.00	1.00	1.00	1.00	1.00	1.00	1.00
	Maximum	5.00	25.00	100.00	5.00	5.00	5.00	5.00	5.00	5.00
Serial	Median	4.0000	1.0000	.0000	4.0000	3.0000	3.0000	2.0000	3.0000	1.0000
	Minimum	1.00	.00	.00	1.00	1.00	1.00	1.00	1.00	1.00
	Maximum	5.00	30.00	100.00	5.00	5.00	5.00	5.00	5.00	5.00

⁸ Minimum and maximum refer to the minimum and maximum scores in the survey.

Table 3 – Logistic Regression

	B	S.E.	Wald	df	Sig.	Exp
Net Profit After Tax as Percent of Sales	-.232	.150	2.414	1	.120	.793
Use of Networks	.062	.084	.543	1	.461	1.064
Investment from Financial Institutions	-.002	.008	.042	1	.838	.998
Occupation as Information channel	-.048	.228	.045	1	.831	.953
On the Job Routine as information channel	.182	.213	.730	1	.393	1.200
On the Job Technology as information channel	-.113	.239	.223	1	.637	.893
Specialized Education as information channel	-.225	.192	1.367	1	.242	.799
Network as information channel	-.182	.191	.914	1	.339	.833
Hobbies as information channel	-.089	.193	.211	1	.646	.915

* - Sig at 0.05 level

Table 4 - Results of Mann – Whitney U Test

	Net Profit After Tax as Percent of Sales	Use of Networks	Investment from Financial Institutions	Occupation as Information channel	On the Job Routine as information channel	On the Job Technology as information channel	Specialized Education as information channel	Network as information channel	Hobbies as information channel
Mann-Whitney U	1135.500	1168.500	1088.000	1145.500	1158.000	1110.500	922.000	1094.000	965.000
Wilcoxon W	2311.500	2653.500	2628.000	2370.500	2433.000	2238.500	2050.000	2222.000	2046.000
Z	-1.283	-.896	-1.854	-.046	-.126	-.476	-1.865	-.599	-1.277
Asymp. Sig. (2-tailed)	.199	.370	.064	.964	.900	.634	.062	.549	.201

* - Sig at 0.05 level

Networks/Relationships

As seen in Table 2b, there is no difference between the median scores of serial entrepreneurs and novice entrepreneurs, suggesting serial entrepreneurs relied on both strong and weak ties/networks to the same extent as did novice entrepreneurs. Also Table 3 and Table 4 show that there is no statistically significant difference between networks used by serial and novice entrepreneurs, thereby not supporting Hypothesis 1.

Use of Financial Partners

There is no difference in the median score regarding the use of

financial partners for serial and novice entrepreneurs as can be seen in Table 2b. This suggests that serial entrepreneurs as well as novice entrepreneurs used financial partners to an equal extent. Also, results from Table 3 and Table 4 show that there is no statistically significant difference between serial and novice entrepreneurs concerning the use of financial partners. Thus Hypothesis 2 was not supported.

Firm Performance

As mentioned elsewhere, we controlled for effects of the industry, and therefore we used a general unit of

analysis of net profit for firm performance rather than an industry specific one. The absence of a difference in the median scores of serial and novice entrepreneurs indicates that serial entrepreneurs' businesses (Table 2b) did not financially outperform those of novice entrepreneurs. Again, as seen in Table 3 and Table 4, there is no statistically significant difference between the financial performance of businesses started by serial and novice entrepreneurs, thereby not supporting Hypothesis 3.

Opportunity Search and Discovery

The statistics in Table 2b suggest that novice entrepreneurs used

their hobbies (median score 2.0) and specialized education (median score 3.0) as information channels to a greater extent than did serial entrepreneurs. The statistics in Table 2b also suggest that there was no difference in the use of occupation, job routines, and on the job technology. The differences between serial and novice entrepreneurs as far as hobbies and specialized education as information channels were not statistically significant, hence not supporting Hypotheses 4a and 4b (Table 3 and Table 4).

Please refer to Table 5 for a summary of the findings of the study.

Table 5 – Summary of findings

Theory Suggested	The Research Found
Serial entrepreneurs will make use of a smaller number of network contacts than will novice entrepreneurs in starting their current business venture.	Serial entrepreneurs did not make use of a smaller number of network contacts did novice entrepreneurs in starting their current business venture
Serial entrepreneurs are likely to use financial partners for a greater percentage of initial funding for their business than are novice entrepreneurs	Serial entrepreneurs did not make use of financial partners for a greater percentage of initial funding for their business than did novice entrepreneurs.
Firms owned by serial entrepreneurs will financially outperform firms owned by novice entrepreneurs	Firms owned by serial entrepreneurs did not financially outperform firms owned by novice entrepreneurs
Novice entrepreneurs will show higher levels of search and discovery using hobbies and specialized education as information channels in choosing their current business opportunity than will serial entrepreneurs.	Novice entrepreneurs did show higher levels of search and discovery using hobbies and specialized education as information channels in choosing their current business opportunity than did serial entrepreneurs.
Serial entrepreneurs will show higher levels of search and discovery using occupation, job routines, and on the job technology in choosing their current business opportunity than will novice entrepreneurs.	Serial entrepreneurs did not show higher levels of search and discovery using occupation, job routines, and on the job technology in choosing their current business opportunity than did novice entrepreneurs.

DISCUSSION AND LIMITATIONS

Davidsson (2004) suggests that researchers should focus more on the theoretical representativeness rather than on the statistical representativeness of their data, therefore even though some findings of the study are not statistically significant (which could be attributed to the small sample size of the study), the readers should focus on the direction the results point to, rather than whether the findings are statistically significant. As summarized in Table 4, the study found many interesting results, some of which deviated from what was suggested by theory (Davis 1971). These findings suggest that prior experience in running a business venture does not play a significant role in differentiating serial from novice entrepreneurs.

Based on the literature on expert information processing, we hypothesized that serial entrepreneurs would make use of a smaller number of ties/networks than would novice entrepreneurs. However knowledge structures (i.e. information) are extremely domain specific and cannot easily be transferred from one domain to another. In addition, these knowledge structures do not prove helpful when the individual with prior knowledge is placed in a new and unfamiliar situation or environment (Chase & Simon, 1973; Chi, Glaser & Rees, 1982). This is often the case in entrepreneurship, where no two business ventures are exactly alike, and a change in internal or external environmental factors affect the business venture. This could help explain why the first hypothesis was not supported.

While most studies of novice entrepreneurs portray them as lacking information regarding start-up processes, thus leading to reliance upon social networks especially strong-tie networks,

our findings offer a different perspective. Given that most of the novice entrepreneurs are second career entrepreneurs, it seems reasonable to assume they likely economized on information processing (DeCarolis & Saporito, 2006). Either because of their work experience or the parameters of the business idea, they relied upon a small social network to help refine and validate their plans. Their choice of who to contact is influenced by existing relationships (Nebus, 2006), and since the vast majority of our novice entrepreneurs had previous work experience (second career entrepreneur – Kemelgor, Henley & D’Souza, 2005), they likely relied upon close associates whom they trusted for advice. Kahneman and Lovallo (1993) found that individuals who discuss business concepts with a limited number of advisors are more likely to receive very positive feedback. Thus, the novice entrepreneur probably relied upon a limited number of information sources (i.e. small network) to make decisions. This minimizes the theorized differences between serial and novice entrepreneurs in their reliance on large, strong tie networks.

Regarding the use of financial partners by the entrepreneurs in starting their current business ventures, theory proposed that serial entrepreneurs were more likely to use financial partners than were novice entrepreneurs. The results, however, do not support this argument. This could be explained, in part, by the fact that novice entrepreneurs could have access to individuals whom they incorporated into their networks if they worked in a particular industry before they decided to undertake entrepreneurship (second career entrepreneur). In our sample, 51 out of

63 novice entrepreneurs were second career entrepreneurs and, their potential contacts within their network likely played a role in accessing financial partners for help in starting their business ventures. Related to this is the concept of social competence (Baron & Markman, 2003), which is defined as an aspect of behavior that represents the entrepreneurs overall effectiveness in their interactions with others. It is the combined effects of various social skills such as the ability to make a good impression or to persuade others to alter their views or behavior (Baron & Markman, 2003). Possessing this ability is positively related to the financial capital accessed by the entrepreneur (Baron & Markman, 2003). In addition, one must be cognizant of the personal resources of the entrepreneur. In examining our novice entrepreneurs, we find that almost all of them have previous work experience. This previous occupational experience, coupled with their educational and financial position, suggests that as first time entrepreneurs, our sample represents a common finding – that many novice entrepreneurs have a lot of financial independence (Korunka, Frank, Lueger & Mugler, 2003) Thus, it is not surprising that there is no statistical difference in the novice and serial entrepreneurs relative to the use of financial partners.

Next the study looked at financial performance, and again based on the literature we hypothesized that firms owned by serial entrepreneurs would financially outperform firms owned by novice entrepreneurs. One has to keep in mind however that this performance is domain specific, and when individuals with prior knowledge are placed in situations which they are not familiar with, they perform as well

as individuals who do not have access to prior knowledge (Chase & Simon, 1973; Chi, Glaser & Rees, 1982)⁹. Another possible explanation for these findings may exist in the concept of entrepreneurial competence.

Entrepreneurial competence is defined as a combination of the ability to identify and pursue opportunities and to gain and organize resources (Erikson, 2002). It would seem logical to assume that serial entrepreneurs would, by virtue of their prior experience, possess much more competence than novice entrepreneurs. However, Erikson (2002) noted that this competence increases as people age due to their accumulation of knowledge and resources over time. Therefore, any significant difference in entrepreneurial competence perhaps was mitigated by the finding that while serial entrepreneurs were on their third business, 51 of our 63 novice entrepreneurs had a career in industry prior to launching their first enterprise.

The study also looked at the use of an individual's proprietary information channels as a factor leading to the identification of entrepreneurial opportunity (Fiet, 1996; Shane, 2000). Although not statistically significant, the findings in the study did support what theory had proposed, lending credence to the argument that effectively scanning and evaluating proprietary sources of information channels are critical to the opportunity discovery process. Here again, second career novice entrepreneurs could be the reason that there was no difference in the use of on-the-job routines, technologies, and

⁹ *Even though this research was performed at the individual level, we propose that the individual performance of the entrepreneur will be a crucial factor that would affect the performance of the firm as a whole.*

networks in searching for opportunities. This supports the argument that people recognize opportunities and ideas related to information they already possess (Venkataraman, 1997). This discovery process needs to be enriched by educators and others working with aspiring entrepreneurs alike by way of helping individuals mine their proprietary information channels. These potential entrepreneurs could group information channels (such as on the job routines, specialized education and hobbies) into consideration sets based on their prior knowledge to help with the search of opportunities (Fiet, 1996, 2000, 2002). As Fiet (2002: 118) suggests, these consideration sets could be sources of discovery as well as sources of information that could be used to make changes to the consideration set.

While this study has furthered our knowledge of the similarities in serial and novice entrepreneurs with regards to the process of entrepreneurship, the study does have a couple of limitations that one needs to keep in mind. To begin with, the small sample size of the study reduces its generalizability. Further research on larger samples needs to be conducted to either support or refute what this study has found. As mentioned earlier, the study was conducted by way of a self-report study. The data collected has not been authenticated by other sources.

CONCLUSION AND IMPLICATIONS

Researchers have found that venture capitalists are intensely interested in behavioral and psychological characteristics of the entrepreneur, and that they are more comfortable investing in entrepreneurs

who have a previous proven track record (Cooper, 1993; MacMillan, Siegel & Narasimha, 1985; MacMillan, Zemann & Narasimha 1987; Shepherd, 1999). This study could help inform investors by showing that when dealing with ever changing environments and uncertainties, serial entrepreneurs are not that different from novice entrepreneurs. In fact, one empirical study shows no significant difference between the performance of businesses owned by serial entrepreneurs and that of businesses owned by novice entrepreneurs (Birley & Westhead, 1993). Thus, in an applied sense, these investors need to appreciate and evaluate the concept and potential success of a new venture rather than primarily focusing upon prior experience of the serial entrepreneur. Additionally, the findings of this study could imply that the industry experience gained by serial entrepreneurs is negated by the industry experience gained by second career entrepreneurs. Therefore, it is suggested that the differences in behavior could be attributed to (among other variables) the lack of prior startup experience in novice entrepreneurs.

Even with its limitations, this study adds to the literature on serial and novice entrepreneurs by furthering a previous study and taking into consideration factors of knowledge structures, and the effects that these knowledge structures have on the process of entrepreneurship. This study helps us understand that knowledge is largely domain specific, thus suggesting that serial entrepreneurs become more expert only if they are confronting repeated sameness in their situations.

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ENTREPRENEURSHIP INTERNSHIPS DIFFER FROM TRADITIONAL BUSINESS AND MANAGEMENT INTERNSHIPS: A FRAMEWORK FOR IMPLEMENTATION¹⁰

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ABSTRACT

The nature of a regular internship versus an entrepreneurship internship is different relative to the level of commitment required of an organization. An entrepreneurship internship program faces unique challenges and embodies fundamental differences in objectives as compared to traditional business internship programs, especially if it is part of a comprehensive undergraduate major in entrepreneurship. However, undergraduate students tend to initially adopt a traditional job search methodology and mindset, which requires realignment to one that is, ironically, more entrepreneurial.

How does the intern know what it is really like to “walk a mile in the entrepreneur’s shoes?” Using a case methodology, we provide an answer to this question. We describe the efforts of one of the authors to develop and grow an existing internship program at a regional university in the Southeast. This paper discusses insights gained through implementing the undergraduate entrepreneurship intern program at one institution, and provides a framework for other institutions that may wish to explore or implement an entrepreneurship internship program of their own. We conclude with observations on the implications of this study as well as a brief commentary on future research.

¹⁰ We adopt the Gartner definition that “Entrepreneurship is the creation of new organizations” (1988, p. 26).

INTRODUCTION

Upon joining the faculty in August of 2004, one of the authors of this paper was asked to serve as Program Coordinator of the Entrepreneurship Intern Program. An internship is “controlled experiential learning where a student receives academic credit while employed by an organization in a chosen area of interest” (Stretch & Harp, 1991, p. 67). The Entrepreneurship Internship Program is organized under the university’s Entrepreneurial Studies Program, which offers both a major and a minor in entrepreneurship.

“Experience continues to be one of the key attributes any entry-level professional can offer a prospective employer, and internships provide one of the best ways for the ambitious to obtain it” (Gault, Redington, & Schlager, 2000, p. 45). In short, internships often lead to jobs (Cannon, & Arnold, 1998). Because internships offer employers a low risk, try-before-you-buy proposition. Employers can find talent fairly cheaply or even for free (Clark, 2003). Internships also create linkages and dialogue between faculty and members of the business community, which have been increasingly identified as highly desirable (Pearce, 1992). Many employers have embraced internships as a valuable recruitment tool (Schmutte, 1985; Cannon, & Arnold, 1998). Based upon initial briefings, it was established that the entrepreneurship internship had been formally organized and was a program of study requirement for entrepreneurship majors. A one course release (from a 4/4 normal teaching load) was also granted in the first semester of employment, during which

the coordinator “ramped up” to service students and employers by developing a website and making initial contacts with businesses and community leaders. Course requirements, student and employer enrollment forms, internship performance evaluations (completed by employers), and additional guidelines were already firmly established and approved by the University’s administration.

However, in previous instances some students had sought to circumvent the internship course requirement by requesting a course substitution. Further, it was suggested that a dedicated faculty member who was qualified and able to acquire and maintain relationships within the business community was necessary in order to ensure the growth of the Entrepreneurship Internship Program. One of the reasons that students had attempted to substitute courses was that the process of determining a possible internship site depended on individual contacts with various faculty who had cultivated contacts with members in the business community; however, a list had not been formally developed and housed in a centralized location. Essentially, a “point person,” i.e., someone who would serve as a formally assigned liaison to connect students with employers was needed if the Entrepreneurship Program was to be developed to its full potential.

Using a case methodology, we describe the efforts of one of the authors to develop and grow an existing internship program. In the second section, we briefly describe the extant literature with an emphasis on literature about student internships. This review briefly covers literature on

entrepreneurship education in the U.S. in order to provide the proper context for the internship. The third section presents our research method, followed by our case study of the Entrepreneurship Internship Program. The fifth section discusses the process that was used to grow a student internship program at a regional university in the southeast, and the final section offers observations on the implications of this study as well as a brief commentary on future research.

Literature Review

The literature on entrepreneurship education is still in a developmental stage (Fiet, 2001). This conclusion is startling when one considers just how far entrepreneurial phenomena have come in the last thirty years. Katz recently demonstrated that interest in entrepreneurship in colleges and universities has been nothing short of incredible. The growth rate has been phenomenal with more than 1,600 colleges and universities offering at least one course in entrepreneurship in the U.S. today.

Entrepreneurship education has been evaluated from a variety of perspectives including what is taught, why it is taught, how it is taught, and how well it works (see Gorman and Hanlon, 1997; Vesper and Gartner, 1997; Solomon, Winslow, and Tarabishy, 1998). The problem with assessing entrepreneurship education is that no generally accepted pedagogical model has been adopted in the U.S. or Europe (Solomon, et. al. 1998). Given that some researchers suggest that the “concept of entrepreneurship is inadequately defined [, and] this lack of a clear entrepreneurship paradigm poses problems for both policy makers

and for academics” (Carton, Hofer, and Meeks, 1998, p.1 of 11), the state of entrepreneurial education cannot be too surprising. If we cannot agree on the phenomena we are discussing, it becomes very difficult to develop a curriculum or build an academic program based upon those phenomena.

Solomon, et al. (2002), discussed the results of a twenty-year investigation of teaching entrepreneurial education and small business management in the U.S. Their data is based upon six national surveys. They believe a trend exists toward greater integration of practical applications and technology in entrepreneurial education. They note that new venture creation, small business management, and small business consulting remain the most popular courses in the field. However, they do not spend significant time discussing student internships.

Internships. Most of the research on pedagogical issues in entrepreneurship education has focused on small business consulting and business plan writing (Solomon, et al, 2002). Rather than attempt an exhaustive review of past research, this section will emphasize research relevant to internships, a form of active learning that has not been well investigated by researchers.

The literature on student internships in business has evaluated several perspectives, such as, but not limited to legal issues (Swift and Russell, 1999), extent of internships among colleges (Coco, 2000), academic content (Cannon and Arnold, 1998; Clark, 2003), and student perceptions (Cook, et al, 2004). Perhaps not surprisingly, many of the articles on internships and

internship programs are written by faculty based upon their observations (Rothman, 2007). Their research emphasizes suggestions to host companies about supervision (Coco, 2000), work assignments (Tacket, Wolf and Law, 2001), as well as other issues, such as legal considerations (Swift and Russell, 1999).

Most of the literature agrees that student internships have many benefits. Cook et al (2004) completed a study of students that participated in student internships and found that most of them found the experience to be a positive learning experience. In a study of 242 schools, Coco (2000) found 92% of the participating schools had internships. Gault, Redington and Schlager (2000) found a link between internships and the recruiting efforts of business. They also found that students who had internships were able to find employment faster and at higher starting salaries than students that had not had internships. While the pragmatic benefits are fairly obvious, the educational value of internships is less obvious to some observers (Clark, 2003). In response to this cynicism, Clark (2003) discussed the attempt at the University of Idaho to provide students a menu of academic assignments to enhance the internship experience. Interestingly, Cannon and Arnold (1998) believe the opposite is true. They found that students use internships to enhance their job searches. They go on to suggest that business schools should require less writing, fewer exams, and less outside reading and add funding to increase the quantity and quality of internships.

While most of the literature emphasizes the benefits of internships, some

authors have noted some drawbacks to internships. For example, Hite and Bellizzi (1986) said that some students may become disappointed in their internships if the programs are not well thought out. Scott (1992) pointed out that internships can be costly to employers that are seeking a return on their investment, while Swift and Russell (1999) noted that legal issues must be addressed to reduce the legal liability of the university.

Perhaps one of the surprising findings about the extant literature is the failure to address firm size when discussing business internships. While the literature does not explicitly state that business students in more traditional management programs are only assigned to large or medium-sized companies, neither does it explicitly address the issues associated with assigning a student to a small or entrepreneurial firm. Clearly, the size of the business has a bearing on the work climate and the expectations that the supervisor may have of the student. More importantly, given the evidence that exists about the growth of programs in entrepreneurship and small business in the U.S. (Solomon, et al, 2002; Katz, 2003), it seems important for researchers to address this gap in the literature on internships by discussing issues related to creating an internship program dedicated to entrepreneurial internships. Indeed, even when seasoned professionals transition from large organizations and start, or attempt to start (sometimes reluctantly, as a result of downsizing) a small entrepreneurial firm, they may flounder; at best, they report vast differences in the nature of big corporate life, as compared to entrepreneurial life.

Research Method

The challenge of conducting research about entrepreneurship education is that no generally accepted pedagogical model has been adopted in the U.S. or Europe (Solomon et al., 2002). This assertion suggests that entrepreneurship education is still in the exploratory stage (Gorman and Hanlon, 1997). Thus, our choice of a research design was influenced by the limited theoretical knowledge researchers have of entrepreneurial education (Fiet, 2001). In such a situation, it is appropriate to use a qualitative research method in order to gather the necessary information (Eisenhardt, 1989; Yin, 1994). The current research necessitated that we observe the process of assigning students to entrepreneurship internships. Thus, we adopted a qualitative research method described by Audet and d'Amboise (1998) which was broad-minded and flexible. Like their study, our aim was "to combine rigor, flexibility and structure without unduly restricting our research endeavor" (Audet and d'Amboise, 1998, p. 11). We start by describing background information about a regional university in the southeast U.S. Then, we discuss how entrepreneurship internships can be adopted at other institutions.

Background. One of the authors was hired as a faculty member in the Entrepreneurial Studies program at a public university in the Southeast. He accepted the additional duties as Program Coordinator of the Entrepreneurship Intern Program. The Entrepreneurship Internship Program is organized under the university's Entrepreneurial Studies Program, which offers both a major and a minor in entrepreneurship. Approximately

eight core entrepreneurship course sections are offered during a typical fall or spring semester, taught by four entrepreneurship faculty members (in addition to others who teach related courses, such as one that teaches advanced business planning and Small Business Management).

The University and Region. The university is a regional university with a student body of approximately 23,000 students. The university has programs of study in Arts, Business Administration, Fine Arts, Music, Science, Nursing, Social Work, and University Studies. The university has a broad array of academic majors and academic minors. In addition, it offers several masters degrees including the Master of Business Administration. Table 1 shows a profile of the university and the region in which it is located.

Internships. Between Spring Semester 2005 and Spring Semester 2007, eighty students were enrolled in student internships. Table 2 summarizes the enrollments by semester in the Entrepreneurship Internship Program. Table 3 provides a profile of a representative selection of internships in which students participated. These internships are not intended to demonstrate the most predominant forms of internships, but rather to let the reader gain an appreciation of the many kinds of businesses to which students may be assigned as well as gain insights from comments submitted by students.

Process Issues and Growth

While the Entrepreneurial Studies Program maintained a Web presence, the Entrepreneurship Intern Program

had no such presence, and it was determined that a Web site should be developed. This presence under discussion was not deemed to be just about technology “bells and whistles” (although it was held implicit that the program should look like it belonged in the modern world). It was agreed that in order to leverage public relations and press relations opportunities, a “place” needed to be created such that any interest on the part of constituencies could be appropriately directed. In other words, it would require more than a phone number and sign-up forms to begin creating a public image among entrepreneurial firms and the business community at large.

Although the creation of a dynamic (database driven) site remains as a technology objective of interest, a static site (otherwise known as a “brochure or catalog site”) was developed to serve immediate needs. In the former case, employers could eventually register online and indicate an interest in program participation. Discussions about the possibility of reciprocity were also held, but given a state-owned and operated computer system, this notion was recognized as problematic. In particular, a more sophisticated Web site without the constraints of state ownership would have been geared to feature business community sponsors and program participants. To translate the implications of this line of reasoning into a graphical presentation perspective, the site would be designed to acknowledge supporters and participants by incorporating logos and other art, to be supplied by the sponsors themselves. Unfortunately, this could be interpreted to constitute private advertising on a taxpayer supported system, so questions arose.

It did not seem like a good use of time to wade through the legal and administrative process of answering these questions in light of more immediate goals at hand. While there may be workarounds (or solutions brought to the surface through additional investigation), it was decided at a departmental level to table the idea, for the time being, at least. Thus, the Entrepreneurship Intern Program site was developed based on existing program guidelines and to provide an information resource as rapidly as possible, with other visions for site enhancements and interactivity under consideration for implementation at a later time.

One practical advantage of the static design was that the Program Coordinator (and a co-author of this paper) was able to immediately begin work and implement the creation of the site using personally owned software and existing skills. Database sites typically require the skills of advanced programming specialists. Reliance on external university resources or those of commercial vendors who may have submitted bids would have in all likelihood, slowed Web site development and deployment time considerably. Hence, the Web site was deployed relatively quickly, during the fall semester of 2004. A departmental level review of the site deemed the work product acceptable for the stated purpose of establishing a “respectable presence.”

Another purpose of the Web site was to service basic needs for information on the part of employers (both those with a possible interest and active participants) as well as students. The site incorporates all necessary forms

(see Appendix) and states guidelines for participation. Links for “Student” and “Employer” sections are provided to provide explanations and guidelines to those two separate audiences (this is not to suggest that there are any “secrets”; any site visitor may access either section of the site). Advisors and entrepreneurship faculty are now able to point to the site, which has been proven in practice to satisfy most of the needs that students and employers have for background information, participation guidelines, and administrative forms. Once the Web site presence was created, it became a much easier matter to refer members of the business community and community leaders to the existence of the program. Efforts were made to communicate quite clearly that the university and the business community should work together to create the type of partnership that fostered continued economic growth and prosperity, for the benefit of all concerned.

The local County has a very proactive Chamber of Commerce, which in turn sponsors a strong economic development platform. Chamber and Small Business Development Center Directors, and other business community leaders were contacted directly (e.g., for discussions over lunch and through established Advisory Board meetings), and have been very supportive. On an individual basis, many entrepreneurial businesses are operated by extremely busy founders. Part of the overall strategy has been to acknowledge these day-to-day pressures, but at the same time, to suggest that if the entire community does not “come together” and “stay together” in supporting a progressive entrepreneurial culture, in the long run,

everyone will suffer. Part of that culture suggests incubation, mentoring, internships, and active University-business community partnering in additional contexts. Community leaders have wholeheartedly agreed with this perspective, and faculty at the university (i.e., within the Entrepreneurial Studies Program) seem to consider this to be crucial to the success of the Program growth and development efforts. Additional program requirements are shown in Appendix A.

DISCUSSION

Students are strongly encouraged to position themselves within a situation that will likely serve as a stepping stone in their career progression, especially (if it is not obvious) in an entrepreneurial context. Academic assignments include activities that are designed to enhance the experience by emphasizing adequate reflection (Clark, 2003). Journals (Alm, 1996) have been recommended by some scholars and they have proven to be an effective tool within the university’s Entrepreneurship Intern Program as well. Although academic credit is given, many students are eager to apply themselves and gain practical experience through their internship experiences (Tovey, 2001).

Insights Gained

An entrepreneurship internship differs from “garden variety” business and management internships (Lahm, 2006). Most apparent, is the challenge of providing true entrepreneurial insights to students who may have substantially different views and workloads as compared to their chosen entrepreneurial mentors. Another key difference is that the entrepreneurship

internship asks, usually of a small, sometimes struggling, but certainly amply challenged business founder, for precious time and resources. Larger, established corporations have formalized routines, HR processes and organizational structures, and do not find it as disconcerting to add one more individual to the staffing mix. Although it is hoped that interns in larger corporate settings are given appropriate challenges, the entrepreneurial internship asserts the need for high level contact with business owners; hence the nature of a regular internship versus an entrepreneurship internship is different relative to the level of commitment required of an organization's upper management.

Unique Challenges in Securing Entrepreneurship Intern Program Employer Work Sites

In essence, the entrepreneurial business can sometimes view the notion of taking on an intern as a distraction, because it must decide on a role, train, orient, and otherwise accommodate a new individual. The practical implications of this suggest everyday illustrations such as a small business owner having to find space in an already cramped office space, obtain equipment for an intern's use, and otherwise accommodate someone who had not been in the entrepreneur's plans. The personal equivalent could be likened to the announcement of an unplanned pregnancy. Further, in the situation advocated by the program, the entrepreneur should agree to provide deep insight into his or her experience, which might include the disclosure of highly sensitive information. Otherwise, the underlying aim of the Entrepreneurship Intern Program—to

provide a realistic job preview for a prospective future entrepreneur—is severely diminished. This present line of reasoning may also apply to traditional management internships, as the authors suppose that assigning these interns to top executives (to observe much less participate in everyday activities at that level) is an unlikely pairing in large organizations.

Other concerns are suggested by the pairing of interns with entrepreneurs. It is logical that interns would want to work with firms that are similar, if not exactly, like the type of business that the intern would eventually like to start on his or her own. This means that the entrepreneur may be training an up-and-coming competitor—something that the entrepreneur might be naturally reluctant to do. In a few instances, this dilemma has been solved by negotiating non-compete agreements with time and geographical restrictions. In one instance, the intern was coached to negotiate an agreement that provided for the expansion of the entrepreneur's business, providing the internship suggested that a longer lasting relationship should ensue afterwards (by adding an additional location to an existing chain of karate studios, which was operated by the intern at the end of his academic training).

The ability to provide such coaching on the part of a given institution's choice of an entrepreneurship program coordinator-director suggests the necessity of practical business skills (e.g., negotiation, contracts, strategic alliances) as well as academic qualifications. We also suggest that arrangements such as this are a shining example of how entrepreneurship internships may differ from traditional

management internships: we expect that those students who are enrolled in the latter would not typically be involved in negotiating agreements of this nature with large corporations (and probably their HR departments). Interns of this latter type are more likely to be assigned to very specific, preconceived roles with established job descriptions (duties and roles at lower levels within the subject organizations).

The Directory Mentality

We believe—based on direct observation and interviews with students who are contemplating their entrepreneurship internship possibilities—that undergraduate students are representative of typical undergraduate students in terms of their level of preparedness, yet anxiousness about the challenges that they will face in the so-called “real world” (Wilson, 2000, p.17). However, as a whole, students often inquire about the Entrepreneurship Intern Program with the same employment-seeking mentality and approach that students have when they are seeking traditional employment, i.e., they have a “directory mentality,” characterized by (Lahm, 2006) as a mindset which causes students to inquire about a list of employers and positions, expecting that they would be cataloged by the Entrepreneurship Intern Program office (just as they would be in an HR department or an employment firm).

Other scholars have observed that students may not apply the skills that they have learned in areas such as marketing to their own job search (McCorkle, Alexander, Reardon & Kling, 2003). As such, one of the first questions students often ask is “what openings are available?” This of course

suggests that these students are ready to be placed in an existing position (where, again, no such position in a small entrepreneurial firm in their industry of interest, with a willing and well suited mentor, et al, exists in the “directory”).

The “Find a Need and Fill it” Mentality

As a whole, students also may have a tendency to procrastinate and are not necessarily as opportunistic as they (or anyone with entrepreneurial aspirations) should be. Without coaching to instruct students to “sell the sizzle” to prospective internship employers, students may simply promote that they are seeking an opportunity (for themselves, which is not a particularly effective promotional appeal) as compared to offering skills and assistance in exchange for gaining entrée to an entrepreneurial business. This coaching, we believe, is vital for arming students with the necessary skills (knowledge and attitude) to identify and secure the best possible internship relative to their own abilities and aspirations.

The development of an ever growing list of prospective placement sites is an objective of the Intern Program Coordinator, and that list has been enlarged over the passing years; nevertheless, students with a “pick an internship from the list mentality” require additional, and sometimes substantial, training (one-on-one and in group formats). If an apparent perfect fit is indicated between a student and a prospective internship employer on “the list” exists, attempts at matchmaking naturally ensue. Otherwise, coaching in prospect research, information interviewing,

negotiation, and personal selling techniques is necessitated. It should also be noted that in fielding inquiries that come into the Entrepreneurship Intern Program office from employers, many come in the form of submissions of “position opening announcements” of the traditional (non-entrepreneurial type: field sales assistant, office-administrative, management trainee, et cetera); the Web site allows for such submissions to be submitted via an online contact form.

Ironically, this training and reorientation of a job (opening) search mentality as compared to one that seeks to understand an entrepreneur’s problems and areas of weakness to be addressed, thereby carving out a position—perhaps through a significant project—is deemed to inculcate vital entrepreneurial skills. This is a time consuming process, to teach the alternate mindset of (entrepreneurial) opportunism and networking skills, after (hopefully) guiding the student to find his or her entrepreneurial calling, if one is not apparent in the first place. In short, there are some Entrepreneurship Intern Program applicants who are still not sure what they want to do when they grow up. The positive aspect of the above situation is that by providing guidance, students can engage in the necessary introspective and exploratory processes to determine through research, problem identification, negotiating, et al, where they might “find a need and fill it.” We believe it would be inadequate to characterize this entire process—that of reorienting a mindset—as simply “networking” (to find a “position”!).

In some instances, coaching must start with standard career counselor’s

questions such as, “do you like working indoors or outdoors?” Students are also taught to engage in information interviews with entrepreneurs and to sell the benefits that they may offer to the entrepreneur (for instance, they could write a business or marketing plan, which as we know, often does not exist). Indeed, the best “door-opener” questions that students should pose are: Do you have a current business plan; a personal selling and marketing plan; a PR plan; a Website; a training and development plan; (and for the rare entrepreneur who has all of these worked out), a contingency and disaster recovery plan? This differs from the approach that they typically would take, announcing all over town that they are “looking for a job (or an internship, as would be the case here).”

Considerations When Designing Program Criteria

Geographic Location. Some of the original documentation and guidelines have required alterations in order to respond to situations that have arisen in the course of administering the Program. As an example, the previously published guidelines dictated that students would complete their internships locally, in a specific county. Generally, it is the case that students will do just that as most who attend are locals. However, in a few instances (early into the period during which the Program Coordinator position was held) students proposed internships that made excellent sense in the context of their entrepreneurial goals, but did not meet the specified geographical criteria. In one particular case, an Asian student was interested in an import/export business, and by leveraging family and personal connections in Singapore, the student

had found an outstanding opportunity. Hence, the notion of a geographic restriction was challenged, and subsequent internships have been designed to reflect the possibility that a viable internship might arise anywhere, globally.

Physical Environment. In another instance which challenged existing assumptions and practices, a quadriplegic student was allowed to work across multiple placements, often conducting research and fulfilling obligations via the Internet. One of these assignments allowed him to conduct a feasibility analysis on behalf of a venture capital firm. Another assignment paired the student with a physics professor who had developed a new type of sensor with possible commercial applications; the professor and university collaborated with the student to develop a business and marketing plan to exploit the intellectual property opportunities associated with the sensor. In both cases, the student's performance was highly praised, and the both internship clients were very satisfied.

Supervision. An occasional (usually mature, non-traditional) student with an already established entrepreneurial business would (logically, we think) inquire about working within his or her own business, as they had already found their own calling. Initially, this appeared to be an intractable problem associated with conflict of interest, in that no student could be allowed to evaluate his or her own performance in a manner that would significantly influence the determination of a final grade (reflecting on one's own performance, on the other hand, is probably a very good idea for professional development in any field

of endeavor, and was expected in written assignments that were part of the internship course requirements). Eventually, after considerable angst and thought, workarounds were developed that may be helpful to share here. One such workaround, in an instance where the business model was such that it serviced a client base, involved allowing multiple members of that clientele to serve as the evaluators; the use of multiple raters was deemed appropriate (as compared to typically just one—a single entrepreneur-mentor). In another case, a student had purchased an established business. Part of the buyout arrangement included the retention of the former owner on a consulting basis during a transition period; we concluded that the former owner was as qualified as anyone (in a typical scenario) to provide the evaluative feedback.

Alternative Experiences. In some instances, where no workaround such as discussed above seemed attainable, students were guided to pursue a "view from the other side of the table" approach. A good illustrative example of this would be, for a graphic designer to work on the client-side of the business or for a media concern (e.g., one that ran print advertisements). Other examples might include working with a primary supplier of an existing business, again, to gain insights as to what the view is like from that perspective. At this point, one might suggest that the entrepreneurship internship would not really be the same as working for someone else's entrepreneurial firm. On the other hand, the inherent nature of most entrepreneurship internships, at their best, is such that they can be likened to a simulation, whereas these special

cases involved students who were already engaged in running “the real thing.” Thus, the objective became to advance their professional development and the growth of their existing entrepreneurial businesses (and perspectives) from a starting point that was already further along than that of students who were seeking a first-time experience in the entrepreneurial world.

Implications for Research and Practice

Institutions that are considering an entrepreneurially oriented internship program should be encouraged by the range of benefits that they might enjoy, but should also be advised that operating an effective program is a significant undertaking, not to be taken lightly on the part of community leaders, program participants (i.e., employers), or administrators. Small businesses may benefit directly by gaining fresh insights and access to assistance that they would otherwise not be able to afford or would not have considered. Whole communities benefit by creating entrepreneurial cultures, through which personal and small business growth contributes to economic growth and development. Students benefit by gaining hands on experience and accelerating their personal learning curves whether they find themselves in a traditional employment relationship, or starting a business of their own.

In offering the above, we also feel we should contrast an entrepreneurship internship course, versus a fully implemented Entrepreneurship Intern Program. In the former case, it is typical for qualified faculty members to service a small number of students and employers (whether “in load,” or for

additional modest compensation) on an ad hoc basis. In the case of a Program, its attributes include, but are not limited to the following characteristics: it becomes a campus entity unto itself, with a defined market image; it can play an advocacy role in terms of encouraging an entrepreneurial culture community-wide, e.g., formal presentations can be delivered to address members of business, community, civic and professional organizations (or one-on-one, with individual entrepreneurs); the entity can participate in recruitment fairs, and develop formal relationships between community leaders and their organizations (e.g., Chamber of Commerce executives, et cetera); as an entity, the Program may even have its own Advisory Board. Importantly, all of the above generate the ability to garner PR in association with specific “success stories” (used only with permission of the parties thereto, of course), the Program’s achievements as a whole, or events in which the entity participates or initiates on its own.

Opportunities to engage in organized research efforts are also facilitated by virtue of the probable increased volume of internships through such an entity (with its outreach capability and efforts) as well as the centralization of data collection processes within an office specifically charged with administering such practices. As introduced earlier, leveraging the benefits of such a Program requires a “point person” who will assure that operations are executed and opportunities are realized and become a reality.

CONCLUSION

Students' summative reports overwhelmingly suggest satisfaction with their internship experiences through the particular Entrepreneurship Intern Program portrayed herein. Employer evaluations suggest an equally high level of satisfaction with regard to their own experiences with the students. As needs in the business community are in a constant state of flux, it is necessary for the university and similarly involved institutions to adapt. Administered properly, there are numerous opportunities to support a strong business community-university partnership (Neumann, and Banghart, 2001) through an Entrepreneurship Intern Program. However, adequate time and a commitment of resources, planning, administering and reporting must be incorporated into the design of a viable program in order to ensure its growth and development.

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Table 1: Profile of University and Region

Item	Comment	Profile
Region	Southeast United States	Serves large regional area.
City	Small town	The city has a population of 75,000. The city has developed into a retail destination attracting shoppers from a 10-county region. Part of the reason for this phenomenal growth is that it is close to a city with 2 major Interstates as well as a “loop” highway that is designed to become an Interstate in the future.
University	Large Regional State University	Founded in 1911 as a state normal school for teacher education. The university has 23,000 students and offers degrees in Arts, Business Administration, Fine Arts, Music, Science, Nursing, Social Work, and University Studies. The College of Business is accredited by AACSB.
Instructor	New to the university	Terminally degreed at the Ph.D. level, with corporate managerial experience as well as entrepreneurial experience (including the prior ownership of a marketing firm).
Program	Entrepreneurship Intern Program	The faculty member was assigned as the Entrepreneurship Intern Program Coordinator; the course has prerequisites as well as specific requirements for the successful completion of the internship.

Table 2. Summary of Internships between January 2005 and May 2007

<i>Semester</i>	<i>Enrollment</i>	<i>Comment</i>
Fall 2004	0	Start-up semester; website designed, promotional efforts and coordination completed.
Spring 2005	9	All ENTR majors
Summer 2005	7	6 ENTR majors
Fall 2005	12	All ENTR majors
Spring 2006	17	All ENTR majors
Summer 2006	8	All ENTR majors
Fall 2006	12	11 ENTR majors
Spring 2007	15	All ENTR majors
Total	80	

Table 3: Examples of entrepreneurship internships in the Entrepreneurship Internship Program; comments are drawn from reflective papers submitted by students.

<i>Industry</i>	<i>Company</i>	<i>Duties</i>	<i>Comments</i>
<i>Martial Arts</i>	Company with three karate school locations.	Responsible for teaching and other aspects of business, servicing 80 students in one location.	“With over 36 years in the business it was not a hard decision to look to...[the owner] as a mentor for my future in the martial arts industry.”
<i>Sports Equipment (Skateboarding Industry)</i>	Single unit retail store.	Customer service and sales, exposure to ordering, inventory control, and suppliers; paying bills, tax forms, finances.	“Working at...[the company] gave me a good idea of [what] running a small retail business would be like.”
<i>Insurance Industry</i>	Local agent for national full-service insurance company.	Studied for banking industry spec. exam (did not pass); assisted with sales prospecting, customer service, some general office duties.	“[The owner] taught me what goes into being an entrepreneur. He majored in Finance and has opened my eyes to what goes into running a business for yourself.”
<i>Recording Industry</i>	Recording studio.	Sound reinforcement and recording of live public performances and studio work.	“From day one I was saturated in it, I learned pre-production, microphone placements...the patch bay, compression, pre-amp stages, player performance techniques from a studio great, mix-down applications, phase cancellation, and mixing effects....This internship experience has solidified even more why I am majoring in entrepreneurship and studying recording on the side.
<i>Fashion Industry</i>	New York headquarters of major clothing designer label.	Runway show productions.	“I really get tickled when I see the show “Project Runway” or the movie “The Devil Wears Prada” because I went through most of what happened on that show and in that movie.

APPENDIX

Additional Program Requirements

Content for this section is taken from the Entrepreneurship Intern Program Web site.

Internship Objectives

The purpose of the entrepreneurship intern program is to provide student interns with an opportunity to: develop professionally, acquire real-world entrepreneurial experiences, and apply classroom learning to the workplace.

Intern Qualifications

- Entrepreneurship Major
- Senior Standing (80+ semester hours)
- Completion of Required Courses:
 - Entrepreneurship
 - Introduction to Business

Academic Requirements

The student intern agrees to:

- Complete an internship application
- Meet with Internship Coordinator as requested

- Work a minimum of 225 hours for 3 hours of college credit
- Work in a company approved by the Internship Coordinator
- Perform in a professional manner and comply with employing company's regulations and policies
- Maintain employing company's confidentialities
- Ask employer to complete the employer evaluation form provided by the Internship Coordinator
- Submit an Internship Portfolio by designated due date
- Entrepreneur Interview—A typewritten summary of an interview with the employer. Interview questions will be provided by the Internship Coordinator.
- Reflective Paper—A final paper, minimum of two typewritten, double-spaced pages, written as a retrospective of the internship experience.
- Company Literature—Promotional/information brochures, etc. from the employing company.
- Daily Journal—Daily journal entries of internship activities and hours worked. Journal entries should be approximately five to ten sentences and can be used to compose the reflective paper.

FAMILY BUSINESS GENERATIONAL STAGES: A MULTI-NATIONAL ANALYSIS

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ABSTRACT

This investigation compared first, second and third-generation family businesses in a large sample from six countries around the world - countries with significant differences in cultures, economies, levels of entrepreneurial activity, and family business demographics. Both supporting and challenging the existing literature, the findings indicate that, as family businesses move from first to second to third generation, some managerial characteristics, activities and practices remain the same while others change. Implications are presented for theory development, for further research, and for those who manage or advise family businesses.

INTRODUCTION

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

This paper reports on an analysis of generational issues in a large combined sample of family businesses from six significantly different countries: Croatia, Egypt, France, India, Kuwait, and the United States. It investigates an especially limited segment of the literature, the study of similarities and differences among first, second and third-generation family businesses, as was suggested for further research by Morris et al. (1997). Furthermore, this study adds to the growing quantitative empirical body of family business literature and expands family business research beyond traditional geographical venues to global comparisons, as suggested by Hoy (2003).

REVIEW OF THE LITERATURE

The field of Family Business 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 (Handler, 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.

A thorough analysis by Dyer and Sánchez' (1998) of all articles published in the first decade of *Family Business Review* provides a clear picture of directions in family business research. In descending order, the most frequent topics of articles published during this period were: 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. In terms of types of articles published, Dyer and Sánchez found that, over the decade analyzed, the proportion of articles involving quantitative research methodology increased, while articles specifically describing the art of helping family businesses declined.

Even with this maturization of the field, a variety of definitions of “family business” continue to serve as the basis for the research and articles within this body of literature (Littunen

& Hyrsky, 2000; Ward, 1986; Ward & Dolan, 1998). For the purposes of this study, a family business is one in which family members dominate the ownership and management of a firm, and perceive their business as a “family business.” Furthermore, this research study recognizes all first-generation family firms as included in the definition. This definition is consistent with that of many prior studies (Chua, Chrisman & Sharma, 1999; Dreux & Brown, 1999; Gersick, Davis, Hampton & Lansberg, 1997; Litz, 1995).

The focus of this paper is an aspect of family business which has generally been relegated to a secondary or peripheral study in past studies. Specifically, as family firms move beyond the first generation of family member ownership and involvement in management, do changes occur? If family firms involve a *system* of 1) the family, 2) the individual family members, and 3) the business unit, how do generational changes in the system components impact each other? Are there significant differences between First-Generation Family Firms (1GFFs), Second-Generation Family Firms (2GFFs) and Third-Generation Family Firms (3GFFs)? And if there are significant differences, do they exist in family businesses in most countries? For this research, a 1GFF is defined as a family-owned and managed firm, with more than one family member involved, but only of the first and founding generation of the family. A 2GFF and a 3GFF are defined as firms in which the second or third generations of the family are also involved in the ownership and the management of the company. In a 2GFF or 3GFF, the original founder(s) and/or other members of earlier generations may be retired from the

firm or deceased; thus not all (two or three) generations need be currently participating. Furthermore, in a 2GFF or a 3GFF, the locus of managerial and family primary leadership may be located at any generational level. This working definition is consistent with previous studies that dealt with generational issues in family firms (Beckhard & Dyer, 1983; Davis & Harveston, 1999; Dyer, 1988; Hershon, 1975; Schein, 1983), and with definitional issues (Handler, 1989; Kelly, Athanassiou & Crittenden, 2000). The existing literature suggests a variety of possible differences between first-generation and subsequent-generation family firms, but most studies' examinations of generational issues were only a small or tangential part of a larger focus on other or broader family firm issues, and these studies were most frequently limited to the United States or the United Kingdom.

This analysis of *generations* should be compared with another focus within the family business literature – a focus on developmental issues or the *stages* of the evolution of family business growth. For example, Gersick et al. (1997) present a developmental model of four typical stages in the growth of a family business, with significant analysis of the characteristics of the firm in each stage, and the implications regarding effective management in each stage. Others, such as Peiser and Wooten (1983), focus on the *life cycle* changes in family businesses. While this developmental focus is important, these researchers admit to the complexity of this focus and the resulting models. In contrast, it is proposed that a *generational* focus is a less complex way to measure the development of a

family business and therefore a valid alternative method, and it is furthermore proposed that theory and future models based on *generations* may be easier to use, especially for family business owner-managers and many of the consultants who assist such firms.

The following hypotheses derive from specific references in the family business literature to generations (1GFFs versus 2GFFs, and occasionally 3GFFs) and proposed similarities and differences between them. Because of the relatively limited prior research specifically focusing on generational issues in family business, it is important to recognize that these hypotheses are based largely on previous *findings* rather than on established *theories*.

HYPOTHESES

As discussed earlier, this *generational* focus constitutes ground-floor research. Thus, at this stage of analysis a broad rather than narrow examination is appropriate. Therefore the hypotheses which follow derive from many different prior family business studies, wherever a potential relationship to generational issues was identified.

Dyer (1988) found that 80 percent of 1GFFs had a “paternalistic” management culture and style, but that in succeeding generations more than two-thirds of these firms adapted a “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 involved the inclusion, and sometimes the

predominance, of non-family managers in the firm.

McConaughy and Phillips (1999), studying large publicly-owned founding-family-controlled companies, concluded that descendent-controlled firms were more professionally run than were founder-controlled firms. These writers postulate that first-generation family managers are entrepreneurs with the special technical or business backgrounds necessary for the creation of the business, but the founder's descendents 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 that subsequent generations in family firms tend to utilize more professional forms of management.

It can be argued that the *size* of a family business grows in subsequent generations, and that it is the *size* factor, rather than the *generation* factor that influences the level of "professionalism" in the management of a family firm (and similarly influences many of the other factors dealt with in the following hypotheses). Clearly, as this and other studies show, the size of a family business tends to expand with subsequent generations. It is not the intention of this study to control for size, but rather to focus on *generations* as a possible simple yet important measure by which to categorize family businesses. Thus, the above findings lead to:

H1: Subsequent-
Generation Family
Firms are more likely
than First-Generation

Family Firms to
include non-family
members within
top management.

(For this and the following hypotheses, this phrasing means that 3GFFs are more likely than 2GFFs, and 2GFFs are more likely than 1GFFs.)

Nelton (1998) investigated gender issues in family firms and concluded 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. Focusing on societal trends rather than family firm generational issues, 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). While it might be argued that these societal trends would impact family businesses equally at all generational levels, Nelton's focus on daughters and succession more strongly relates to the focus of this study. Thus:

H2: Subsequent-
Generation Family
Firms are more likely
than First-Generation
Family Firms to have
women family members
working in the firm.

The distribution of decision-making authority in the firm is another aspect of family business behavior. As previously discussed, 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 and postulated that subsequent-generation family firms are more likely to engage in team management, with 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 percent of family businesses are considering co-presidents for the next generation. This leads to:

H3: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to use a “team-management” style of management.

Interpersonal dynamics, including conflict and disagreement among family members, has been a major focus of family firm research (Kellermanns & Eddleston, 2004). Conflict can exist in first-generation family firms, when siblings, spouses or other relatives participate in management and/or ownership, and conflict can also arise between members of different generations in subsequent-generation family firms. Beckhard and Dyer (1983) found that conflict among family members increases with the number of generations involved in the firm. Conversely, Davis and Harveston (1999, 2001) concluded that family member conflict increased only moderately as firms moved into the second-generation stage, but there was a more sizable increase from second to third-generation. This leads to:

H4: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to have conflict and disagreement between family members.

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 on the reins of control and authority, the lack of preparation for leadership next-generation family members often receive, and thus the need for, and importance of, succession planning (Davis, 1983; Handler, 1994; Upton & 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. Fiegener and Prince (1994) compared successor planning and development in family and non-family firms, and found that family firms favor more personal relationship-oriented forms of successor development, while non-family firms utilize more formal and task-oriented methods. Building upon these and other studies of succession in family firms, Stavrou (1998) developed a conceptual model to explain how next-generation family members are chosen for successor management positions. This model involves four factors which define the context for succession: *family*, *business*, *personal* and *market*.

Some of the earlier family business studies have dealt with various aspects of succession, but none have specifically investigated succession

planning and practices in first-generation versus subsequent-generation family firms. Still, given that the importance of succession has been well established and publicized, and that family firms often experience the trials of succession as they move from one generation to the next, it would be expected that subsequent-generation family firms are more likely to recognize the importance of succession than are first-generation family firms and respond accordingly. Thus:

H5: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to have formulated specific succession plans.

A number of earlier researchers of family firms have postulated that, as these firms age and/or move into subsequent-generation family management and ownership, they also progress from one style of management to another. Informal, subjective and paternalistic styles of leadership become more formal, objective and “professional” (Aronoff, 1998; Cole & Wolken, 1995; Coleman & Carsky, 1999; Dyer, 1988; Filbeck & Lee, 2000; McConaughy & Phillips, 1999; Miller, McLeod & Oh, 2001; Schein, 1983).

“Professional” management may involve the following: (a) the use of outside consultants, advisors and professional services, (b) more time engaged in *strategic* management activities, and (c) the use of more sophisticated financial management tools. These conclusions lead to three hypotheses:

H6: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to use outside consultants, advisors and professional services.

H7: Subsequent-Generation Family Firms spend more time engaging in strategic management activities than First-Generation Family Firms.

H8: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to use sophisticated methods of financial management.

Still another issue of interest in the investigation of family business is “generational shadow” (Davis & 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 values, direction and standards for subsequent firm managers. Kelly et al. (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. If “generational shadow” and “legacy centrality” are valid components of the family business system, then management in both first-generation family firms (with the founder in control) and in subsequent-generation family firms (with the founder having strong presence even if not actually there) should be influenced by the objectives and methods of the founder:

H9: Top management styles and decisions in Subsequent-Generation Family Firms are neither more nor less likely than in First-Generation Family Firms to be influenced by the original business objectives and methods of the founder.

Although most family firms are privately owned, some are not. As family 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. In the United States, McConaughy (1994) found that 20 percent of the *Business Week 1000* firms are family-controlled, while Weber and Lavelle (2003) report

that one-third of *S & P 500* companies have founding families involved in management. Thus:

H10: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to have considered “going public.”

Decisions with regard to capital structure decision are important for family businesses (Romano, Tanewski & Smyrnios, 2001). Following from the preceding discussion, subsequent-generation family firms may use equity financing rather than debt financing, as they grow through the sale of company stock. 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.

Yet other researchers have found that family businesses, and especially first-generation ones, are reluctant to use debt financing (Bork, Jaffe, Jane, Dashew & Heisler, 1996; Gersick et al., 1997). Thus, with the literature pointing in both directions:

H11: Subsequent-Generation Family Firms are neither more nor less likely than First-Generation Family Firms to use equity financing rather than debt financing.

CROSS-NATIONAL ISSUES

Over the twenty-year history of the *Family Business Review*, and in other venues for reports on family firm research, most of this research has

focused on family businesses in the United States, and sometimes Canada. However, in recent years about ten to twenty percent of *FBR* articles have been written by non-North American researchers, who have drawn on examples or samples of family firms in their own countries. And although these articles have reported on family businesses in a variety of European and Asian nations, there has been limited discussion as to whether family businesses in other countries may be significantly different from their North American counterparts, and whether conclusions reached from such studies may not be comparable with North American-based findings and resulting theory. Only very recently have a few family business researchers postulated that family businesses in other countries may be different from those in the United States. Morck and Yeung (2003) suggested that non-economic benefits and rewards may be more important to family business owners outside of the United States and the United Kingdom. They also propose that family firms in the formerly planned economies of Central and Eastern Europe may be different from American and Western European family businesses. Hoy (2003), in an analysis of the current state of family business scholarship, concluded that there is a need to globalize this body of research.

There have been only a limited number of empirical studies on the subject of individual country characteristics and culture and their impact on entrepreneurship (Hayton, George & Zahra, 2002). Yet such characteristics and culture clearly have an influence on the nature and performance of entrepreneurship and small business in general, and upon

family businesses in particular (George & Zahra, 2002). It has been found that entrepreneurial cognitions are distinct from other types of business cognitions and that, while such cognition universally exists, it varies significantly from one country and culture to another (Mitchell et al., 2002).

Other researchers have confirmed the influence of national culture on entrepreneurial orientation and behavior, both at the individual, aggregate and corporate levels (Ahlstrom & Bruton, 2002; Kreiser, Marino & Weaver, 2002; Marino, Strandholm, Steensma & Weaver, 2002). The Global Entrepreneurship Monitor (GEM) summary report lists “entrepreneurial activity” for 37 countries, with India and Thailand at the high end of the scale with about 18 entrepreneurial persons per 100 in the labor force, and Japan and Russia at the low end with about 2 persons per 100 (Reynolds, Bygrave, Autio, Cox & Hay, 2002).

“Culture” is generally defined as a set of shared values, beliefs and expected behaviors (Hayton, et al., 2002), and a commonly used taxonomy of cultural/entrepreneurial dimensions involves (1) individualism-collectivism, (2) uncertainty avoidance, (3) power-distance, and (4) masculinity-femininity (Hofstede, 1980). And while “culture” and “nation” are generally used interchangeably in most of this research, Tan (2002) compared Mainland Chinese, Chinese-Americans and Caucasian Americans and concluded that “nation” has a greater impact on entrepreneurship than “culture.”

Data relating to Hypotheses 1-11 was gathered in Croatia, Egypt, France India, Kuwait and the United

States. These six countries have different sized populations, different cultures, different economic characteristics and histories, and different *GEM* rates of entrepreneurial activity (Croatia = 3.6, France = 3.2, India = 17.9, United States = 10.5; *GEM* rates have not been developed for Egypt or Kuwait.). Space limitations preclude more detailed discussion of family businesses in each country.

METHODOLOGY

Samples

Because of varying difficulties in identifying and contacting family businesses in the various countries, the survey methodologies were somewhat different in each.

In France and India, large survey mailings to identified family businesses were possible (France = 800, India = 312), and net response rates for France of 14.6 percent (n=116) and for India of 13.6 percent (n=40) were obtained.

In Croatia, far fewer (70) family firms were identifiable, but an intensive contact effort by mail, telephone and personal visit resulted in a response rate of 71.4 percent (n=50). A similar data collection in Kuwait produced a 100 percent response rate (n=81).

In Egypt, the survey was sent through the family business network of the Egyptian International Trade Point (EITP) and the Egyptian Ministry of Trade and Industry (<http://www.tpegyp.gov.eg/default.aspx>). Six hundred (600) family business received copies of the survey. 172 businesses responded to the survey, but 25 were found to be non-family businesses or otherwise not appropriate for sampling. This resulted in 147 usable survey responses, providing a response rate of 25.6%.

In the United States, survey instruments were randomly mailed or hand-delivered in 2001 to a variety of New York and Massachusetts companies, which had been identified as family firms (primarily in listings of “family businesses” in local business newspapers). There were 822 surveys mailed or delivered; of these 272 were no longer at the address or responded that they were not family firms. A total of 149 usable returned surveys provided a return rate of 27.1 percent. To increase the sample size and to test for non-response bias in the US, after a few months a follow-up request for surveys was made, and 12 more questionnaires were returned and used for a total of 161, providing a final return rate of 28.6 percent. Analyses of some of these countries’ data were previously published by Sonfield and Lussier (2002, 2004, 2005).

Identifying family firms from various listings is consistent with that of other family business researchers, who have been constrained by the lack of national databases of family firms (Chua, et al., 1999; Teal, Upton & Seaman, 2003). This is an acceptable sample size and response rate for family business, as it has been reported that 62 percent of prior family business studies included no sample at all, or a sample with less than 100 family businesses, and 66 percent of these were convenience samples (Bird, Welsch, Astrachan & Pistrui, 2002). In three highly-rated small business and entrepreneurship-oriented journals (*Entrepreneurship Theory and Practice*, *Journal of Business Venturing*, and *Journal of Small Business Management*) around one-third of the articles had a response rate of less than 25 percent (Dennis, 2003).

Measures

Dependent variables. The dependent variables to test Hypotheses 1-11 were as follows. (H1) Does the firm have non-family managers?—the percentage of family to non-family managers. (H2) The percentage of male and female family members involved in the operation of the firm. Hypotheses 3-10 were Likert interval scales of: “Describes our firm” 7 6 5 4 3 2 1 “Does not describe our firm.” (H3) full family involvement in decisions, (H4) level of family conflict, (H5) formulation of succession plans, (H6) use of outside advisors, (H7) long-range thinking and decision-making, (H8) use of sophisticated financial management tools, (H9) influence of founder, and (H10) considering going public. (H11) The use of debt or equity financing was a nominal measure of one or the other. Descriptive statistical data included number of years the firm was in business, the number of employees, industry (product or service), and form of ownership.

Independent variable: The independent variable for the first 11 hypotheses was the number of generations involved in the operations of the family business. The nominal measure was one, two or three or more generations.

Analysis of Variance

Hypotheses 1-10 compared the dependent variable among the three generations using one-way ANOVA. Hypothesis 11, having nominal measured variables, compared debt to equity by generations using chi-square.

RESULTS

Descriptive statistics

Of the sample of 593, the number of first generation firms was 193 (33%), second generation 268 (45%), and three or more 132 (22%). See Table 1 for a summary of descriptive statistics. Also, see Table 2 for a comparison of the means for each generation for their dependent variable.

Hypotheses ANOVA testing

See Table 2 for the results of hypotheses testing. The numerical statistical test result data are presented in this table and are not repeated here in the following discussion.

As discussed earlier, the limited earlier generational findings in family business literature tend to conclude that many managerial characteristics and practices will change as a family firm moves from first-generation to second-generation and to third-generation. This current study found the following statistically significant changes, *in support of the prior literature*:

H1: the use of non-family managers

H3: the use of team-management style

H5: the formulation of succession plans

H6: the use of outside consultants, advisors and professional services

H7: the use of sophisticated methods of financial management

Also in support of prior research findings, this study found no

significant generational differences with regard to:

H9: the degree of influence by the original business objectives and methods of the founder

H11: the use of equity financing rather than debt financing

However, *contrary to prior research findings*, no significant differences were found with regard to:

H2: women family members in the firm

H4: conflict between family members

H7: time spent in strategic management activity

H10: consideration of going public

These findings are discussed below.

Analysis between countries

A full statistical analysis of similarities and differences in results *between* the six countries is not presented here, as it is beyond the scope of this paper. In summary, only minor generational differences between the various countries were found, none of which are worthy of discussion. On the whole, the findings in each country were largely similar to those in each of the other countries.

IMPLICATIONS

There are several important contributions of this study and its findings. Prior family business research has rarely focused specifically on comparisons of first, second, and third-

generation firms. The few investigations of this issue have generally been conceptual or otherwise qualitative, or a tangential empirical analysis within a larger family business study (Beckhard & Dyer, 1983; Davis & Harveston, 1999; Dyer, 1988; Hershon, 1975; Schein, 1983). Thus, this study constitutes ground-floor empirical investigation of this specific issue, and adds to the limited existing and primarily qualitative body of literature.

A better understanding of these generational similarities and differences might direct and enable entrepreneurship, small business, and family firm researchers to better focus their future investigations and theory development into these three generational categories as separate entities, might strengthen the effectiveness of advisors, consultants, and others who assist family firms by allowing them to differentiate, as needed, between their first, second and third-generation family business clients, and also might assist family business owner-managers in their understanding and self-analyses of their businesses.

Another important contribution of this study is its cross-national focus. Most prior family business research has focused on North American firms, although family business investigations in other countries have increased in recent years. Still, we have found no prior research specifically combining family firm data in different countries, especially countries with major differences in economies and/or cultures. While there has been considerable analysis of cross-national and cross-cultural issues in the broader field of *entrepreneurship*, cross-national and cross-cultural

considerations of *family business* topics are in their infancy. Thus, in this respect too, this study constitutes ground-floor investigation and is an early step in the development of this segment of the literature.

Lastly, the findings of this study with regard to generational analyses provide data that is more complex and mixed than the conclusions reached by most of the limited previous conceptual and empirical research. This raises questions about these earlier conclusions and indicates a need for further empirical research. And our cross-national analysis findings also raise questions about many of the established conclusions reached in the literature on cross-national and cross-cultural issues in entrepreneurship, in particular with regard to the importance of *national* and *cultural* factors on entrepreneurship.

CONCLUSIONS

In summary, this investigation compared first, second and third-generation family businesses in a large sample from six countries around the world - countries with significant variations and differences in cultures, economies, levels of entrepreneurial activity, and family business demographics, and thus perhaps universally representative of family businesses in general. Both supporting and challenging the existing literature, the findings of this study indicate that, as family businesses move from first to second to third generation, some managerial characteristics, activities and practices remain the same while others change. Implications have been presented for theory development, for further research, and for those who manage or advise family businesses.

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Table 1 Descriptive Statistics

Variable	1GFF (n = 193)	2GFF (n = 268)	3GFF (n = 132)	Total (N = 593)
Generation (% of N)	33%	45%	22%	100%
Years in business (mean/s.d.) (median)	16/10	27/18	60/35	31 23
Number of employees (mean/s.d.) (median)	111/480	443/3,695	875/2,730	431/2,820 ¹ 35
(micro 0-9)	49	41	20	110
(small 10-49)	87	104	42	233
(medium 50-249)	40	80	35	155
(large 250 +)	17	43	35	95
Service (%) vs. Manufacturing	50% 50%	47% 53%	56% 44%	50% 50%
Ownership (corporation %, Partnership, Sole proprietorship)	44% 29% 27%	46% 25% 29%	70% 18% 12%	50% 25% 25%

¹ The large deviations are due to the sample including 23 firms (4%) of the sample having more than 1,000 employees; nine firms with 1,000-2,000 employees, five with 2,300-3,000, two with 3,500-4,000, three with 5,000-6,000, and one with 10,000, 12,000, 22,000, and 60,000.

Table 2 One-Way ANOVA Hypotheses Comparison by Generation (N = 593)

Hypotheses	1GFF (n=193)	2GFF (n=268)	3GFF (n=132)	F	p
1. Use of non-family member within top mgt (% non-family)	27	30	40	6.32	.002
2. Women family members working in firm (% of women)	25	23	26	.819	.442
3. Use of team-management style (7-1) ¹	4.41	4.73	4.09	3.85	.022
4. Having conflict between family members (7-1)	2.38	2.53	2.27	.974	.378
5. Formulation of specific succession plans (7-1)	3.39	4.15	3.65	5.93	.003
6. Use of outside consultants, advisors, and professional services (7-1)	3.89	4.30	4.66	4.81	.009
7. Time spent in strategic mgt activity (7-1)	3.20	3.63	3.48	2.87	.058
8. Use of sophisticated methods of financial mgt (7-1)	3.70	4.29	4.20	4.54	.011
9. Degree of influence by original business objective and methods of the founder (7-1)	4.51	4.78	4.36	2.03	.133
10. Consideration of going public (7-1)	1.93	2.19	2.15	1.04	.353
11. Equity rather than debt financing (proportion of n)	97/96	124/144	51/81	4.30 ²	.117

¹ Likert scales—Mean of Describes our firm 7 6 5 4 3 2 1 Does not describe our firm

² Chi-square, not F value

FINANCE PROFESSORS' REACTION TO SELECTED ENTREPRENEURIAL AND SMALL BUSINESS FINANCIAL PLANNING AND MANAGEMENT ISSUES

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ABSTRACT

Discontinuances among small businesses are high. Many of these discontinuances result from poor management particularly poor financial management in new business start ups. As professors of entrepreneurship and small business we wanted to know what our colleagues in finance think small business financial planning and management. This paper presents the findings of a national survey of finance professors from 662 colleges across the U.S. about financial planning and management for small businesses. The results indicate that most finance professors agree with the concepts used in entrepreneurship and small business. Additional attention to small business finance seems indicated.

INTRODUCTION

Discontinuances among small businesses, particularly among new start ups, are high. Common causes of small business discontinuances, particularly failures, are undercapitalization and financial management. As professors of entrepreneurship and small business, we wondered whether our colleagues in finance think about selected issues of importance to small business financial planning and management as we do. The assumption is that what they think is what they are probably teaching. The purpose was to determine what finance professors in the US, think about selected issues in small business finance. In particular, how they think assets should be financed during start up, survival, growth, through various phases of the business cycle and about managing current assets during various phases of the firm life cycle.

LITERATURE REVIEW

Poor financial planning and management are often given in both the academic and popular literature as primary reasons for small business failure. These citations emphasize a failure to anticipate cash needs to reach cash flow breakeven. Baron and Shane (2005) indicate that most new ventures have negative cash flow in the early phases of the business and this may result in failure if additional cash is not available from some source. Perry (2001) found a significant relationship between firm failure and lack of planning. Gaskill, Van Auken, and Manning (1993) also found that the primary reason given by small business owners for failure were poor management and planning. The second important factor they found was related to finances and working capital management. The third factor related to the competitive environment while the fourth factor related to growth. Entrepreneurs tend to over-estimate the

odds they will succeed (Baron and Shane, 2005).

Others indicate that optimism among entrepreneurs is a problem. Optimists often convince themselves to become entrepreneurs with high risks of failure (De Meza and Southey, 1996). Coelho and De Meza (2006) discovered that irrational expectations (also interpreted as unrealistic optimism) led entrepreneurs to act against their best interest and resulted in a loss of well being. The behavioral finance literature indicates that failure rates of new ventures can be explained by entrepreneurial bounded rationality in the form of overconfidence and/or optimism at the project initiation stage (Brocas, 2004).

Hey (1984) similarly concludes that an optimist over-estimates (underestimates) the likelihood of favorable (unfavorable) outcomes.”(Hey, 1984) Cognitive biases among entrepreneurs lead them to overestimate demand, underestimate competitor response, and misjudge the need for complementary assets. (Simon and Houghton, 2002) Optimism is linked to the risk acceptance by entrepreneurs. Entrepreneurs who have high levels of optimism often have high expectation about their actions that connects them to high risk perception. (Petrakis, 2005)

Small business texts have also emphasized the importance of financial planning and management in small businesses. Baumbach and Lawyer (1979, p. 191) felt that entrepreneurs needed to allow for three to six months before “...income from the business will cover expenses including personal income.” Kuratko and Hodges (2004, p. 253) suggest that is not sufficient to get enough to get started, the business “...must be able to survive at least 90

days without further inflows of funds.” Similarly, Scarborough and Zimmerer (2008, p 390) indicate that entrepreneurs “...are overly optimistic in their financial plans and fail to recognize that expenses initially exceed income (and cash outflow exceeds cash inflow) for most firms. This may last from a few months to several years.”

Longneck, Moore, and Petty (2000, p. 515) indicate that “More businesses fail because of a lack of cash than because of a lack of profits.” Similarly, Vesper (1996, p. 300), says that “The ultimate evidence of error in venturing is a shortage of cash. Either too little came in, or it went out too fast or both. The ultimate pitfall of venture financing is to run out of cash.” Knap (2003) also suggests that one of the major factors in small business failure is an ample supply of capital. Xu and Wang (2007) indicate that a widely recognized cause of failure is poor financial management.

The popular literature expresses similar ideas. A website, businesswealth.com, in the online literature suggests that inadequate cash reserves are the single most common reason for businesses fail. This source suggests six months or so of cash reserves. KSA Business Recovery and Insolvency Services (ksabr.com) indicates that poor cash flow management is the main reason for small businesses failures. The factors that can cause poor cash flow are increases in inventory levels, poor credit control, increased days in receivables, bad debts incurred, late billing, poor forecasting, and failure to plan for capital and/or exceptional expenditures. Mason (2008) indicates that small business failure results from a lack of management skills and/or lack of proper capitalization. Smyth (2007,

p. 1) says that “The lack of start-up capital is a problem most small businesses encounter.” Another website, prweb.com, indicates that financial management (cash flow) is one of the factors that cause failures and “....cash flow problems are responsible for over 70 percent of business failure with their first year.” Clark (1997) indicates that money is one factor that must be properly planned. He indicates that break even for a start up company takes longer than most entrepreneurs expect. He suggests having a nest egg at least three times longer than projected to break even. Videouniversity.com cites poor cash flow management and inappropriate sources of finance as causes of failure.

Clearly, poor financial planning and management can create problems for entrepreneurs small business managers. To try to discover how small business should plan and manage current assets (cash, receivables and inventory), we looked into some standard texts used to teach basic finance. These texts provide insight into the financing options available to small business managers. The three options for financing assets include: 1) the aggressive approach that suggests financing fixed assets and the permanent portion of current assets with long term sources, 2) the matching approach that suggests financing assets with terms that match their life, and 3) the conservative approach that suggests financing fixed assets, permanent working capital and a portion of seasonal working capital with long term sources (Lasher, 2003 and Brigham and Houston, 2007).

Small business texts seem to favor the conservative approach. Carland and Carland (1998, p. 444)

“Treating the permanent portion of current assets as long lived and using long term debt to finance it can make sense.” Baron and Shane (2005, p. 182) suggest similar logic, “...experienced entrepreneurs often say that it is best to look for money before the need arises. That way, it will be available when, as almost always happens, expenses are larger than anticipated and cash inflows are slower than expected.” Cesar (2004) indicates that how a business obtains initial funding to start-up is critical in determining adequacy, financial performance and probability of failure.

The logic seems clear, when small business start, current assets should be financed with a source of funds long enough to allow the firm to reach cash flow breakeven in an orderly way. In most start up situations, longer term sources of funds should be used to finance fixed and permanent current assets.

In an earlier study, Cheatham, Dunn, and Cheatham (1993) found that college students needed more training in financing for business start up, small business financing, cash conversion cycles and impacts, and matching financing to length of use of funds. Evidently students are not learning what these authors think they should.

For entrepreneurship and small business management students exposed to the standard College of Business curriculum, we wondered what finance professors think about financing small business and, by implication, what our entrepreneurship and small business management students may be taught in the basic finance course. The purpose of this paper was to determine what finance professors think about selected small business financial management

issues faced by entrepreneurs and small business owner managers.

METHODOLOGY

A questionnaire was designed to pose several start up finance or financial management situations to which an entrepreneur or small business person might be required to or at least be expected to react. The assertions about financial management were presented to which finance professors were asked to strongly agree, agree, disagree, or strongly disagree. The questionnaire was uploaded to the internet at the Survey Monkey site. An email list of finance professors from the websites of 662 colleges across the country was obtained from a colleague. The link to

the site was emailed to 1676 finance professors across the nation with a request that they respond. Of those emailed, 436 were returned as undeliverable. Ninety four responded, for a return rate of 7 percent.

FINDINGS OF THE STUDY

Table 1 summarizes the demographics of the sample. Most, 84.9 percent were male; most, 92.6 percent, were over 35; most, 77.7 percent, held the Ph.D.; all taught finance, and most, 86.2 percent had more than 6 years of teaching experience. The sample came from all over the US with 30 states represented in the sample.

Table 1. Demographics of Sample

Gender	Frequency	Percent	State	Frequency	Percent
Female	13	15.1	AL	2	2.1
Male	73	84.9	AR	1	1.1
Total	86	100.0	AZ	1	1.1
Age			CA	13	13.8
26-35	7	7.4	CO	2	2.1
36-45	18	19.1	CT	2	2.1
46-55	33	35.1	DC	1	1.1
56-65	21	22.3	FL	3	3.2
Over 65	8	8.5	HI	1	1.1
Total	94	100.0	ID	1	1.1
Education Level			IL	4	4.3
Bachelor	1	1.1	IN	4	4.3
Master's	13	13.8	MA	2	2.1
Ph. D.	73	77.7	MI	2	2.1
Total	94	100.0	MO	1	1.1
Major			MS	1	1.1
Business	3	3.3	NC	2	2.1
Economics	11	12.0	NH	2	2.1
Finance	70	76.1	NJ	3	3.2
Other	3	3.3	NY	3	3.2
Total	94	102.2	OH	3	3.2
Teaching Area			PA	2	2.1
Finance	94	100.0	RI	1	1.1
Total	94	100.0	SC	2	2.1
Years Taught			SD	1	1.1
< 6	12	13.8	TN	3	3.2
6 - 10 Years	14	16.1	TX	12	12.8
11 - 15 years	12	13.8	VA	2	2.1
> 15	49	56.3	WA	2	2.1
Total	87	100.0	WV	1	1.1
			Total	94	100.0

Table 2 presents the agreement or disagreement of finance professors with the assertions about selected financial planning and management issues. The non responses were included as a matter of interest, but are not counted in the proportions.

Eighty one percent of the professors agreed that equipment and fixtures should be financed using long term sources. All three approaches to financing assets suggested by standard texts would agree with this assertion. One wonders about the 19 percent of the professors who disagreed. Most, 77.8 percent, agreed that owner's funds should be reserved for working capital rather than spending those funds on fixed assets. In the author's experience, entrepreneurs often spend their money for things rather than retain the funds to maintain the liquidity of the firm, a mistake. Interestingly, 75.0 percent, of the respondents agreed with reserving owner's money for working capital was a good idea.

The assertion regarding cashing CDs or using savings instead of using these as collateral for loans resulted in a split of 52.3 percent agreeing and 47.6 disagreeing. The argument for using the time deposits as collateral is that borrowing money imposes a type of "fiscal discipline" on entrepreneurs. Entrepreneurs feel an obligation to be conservative with borrowed funds since they must be repaid. If cashed, there is a tendency for entrepreneurs to spend the funds, sometimes unwisely. Most of the respondents, 93.5 percent, agreed that negotiating survival cash at the beginning is important. Sometimes, loan officers change jobs and new loan officers are not aware of any understandings that existed at the time start up funds were provided. This situation also calls for such agreements

for survival cash to be in writing, not just understood.

Most of the finance professors, 95.2 percent, agreed that entrepreneurs tend to overestimate sales and under estimate expenses. This probably results from optimism, but is a primary concern among small business advisors, since such estimations lead to early liquidity problems for new ventures. Finance professors, 96.7 percent, agreed that entrepreneurs under estimate working capital needs. Most entrepreneurs get just enough to get started and not enough to sustain the business to cash flow breakeven. Too, they expect sales to materialize faster than they do. These all lead to liquidity problems for entrepreneurs.

The next assertion is one that represents a very common problem for entrepreneurs. Financing basic inventory at the beginning with longer term sources of funds is important. Many entrepreneurs assume that inventory will turn, but the amount of funds in inventory stays roughly the same and, as a permanent current asset, probably should be financed with longer term sources. Many professors, 63.3 percent, agreed that basic inventory should be financed with sources of funds longer than allowed from trade credit or short term loans. Seasonal inventories can be financed using short term sources (trade credit for example) without negative consequences assuming they sell during the season. Over 90 percent of the professors agreed with the assertion.

Almost all, 98.4 percent of the professors, agreed that rapid growth is likely to create cash flow problems for small business managers. Funds get sucked into inventory and receivables resulting in liquidity problems. Many

Table 2. Agreement and Disagreement with Financing Assertions

	Frequency	Percent
Finance Equipment and Fixtures Using Long Term Sources		
Strongly Agree	14	22.2
Agree	37	58.7
Disagree	12	19.0
Total	63	100.0
NR	31	
In Start Up, Using Owner's For Fixed Assets is Better Than Using Money for Working Capital		
Strongly Agree	3	4.8
Agree	11	17.5
Disagree	38	60.3
Strongly Disagree	11	17.5
Total	63	100.0
NR	31	
Owner's Money Should Be Reserved for Working Capital		
Strongly Agree	11	18.3
Agree	34	56.7
Disagree	14	23.3
Strongly Disagree	1	1.7
Total	60	100.0
NR	34	
Better to Cash CD's or Use Savings Than Use as Collateral		
Strongly Agree	5	7.9
Agree	28	44.4
Disagree	28	44.4
Strongly Disagree	2	3.2
Total	63	100.0
NR	31	
Negotiate Survival Cash at Beginning		
Strongly Agree	19	30.6
Agree	39	62.9
Disagree	4	6.5
Total	62	100.0
NR	32	

small business owners assume that growth is good, managed growth is good, but unmanaged growth often creates problems. Managing current assets during the phases of the business cycle often creates problems for small business owner/managers. During the decline phase of the business cycle, sales will fall. Proper management will mean that inventories will have been reduced in anticipation of the decline, receivables will be watched and collected in good order, and expenses

will be cut as possible. The combined impact of these management tactics will usually result in increased cash in the till. The additional cash will come in handy during the recession and recovery stages of the cycle.

Accounts receivables financing is another area where small business owners make errors. The permanent portion of accounts receivables, as a permanent current asset, should be financed with longer term sources of funds. About three quarters of the

professors agreed. Many small business owner/managers make the same assumption about accounts receivables that they make about

permanent inventory, it will turn, but they neglect the portion of receivables that is permanent. Again, a liquidity problem can result.

Table 2 Continued

Overestimate Sales Under Estimate Expenses		
Strongly Agree	37	59.7
Agree	22	35.5
Disagree	2	3.2
Strongly Disagree	1	1.6
Total	62	100.0
NR	32	
Under Estimate Working Capital Needs		
Strongly Agree	24	39.3
Agree	35	57.4
Disagree	2	3.3
Total	61	100.0
NR	33	
Finance Basic Inventory Using Longer Term Sources		
Strongly Agree	2	3.3
Agree	36	60.0
Disagree	21	35.0
Strongly Disagree	1	1.7
Total	60	100.0
NR	34	
Finance Seasonal Inventory Using Trade Credit or Other Short Term		
Strongly Agree	8	12.9
Agree	50	80.6
Disagree	4	6.5
Total	62	100.0
NR	32	
Rapid Growth Creates Cash Flow Problems		
Strongly Agree	43	69.4
Agree	18	29.0
Disagree	1	1.6
Total	62	100.0
NR	32	
Cash Balances Increase in Decline Phase of Business Cycle		
Strongly Agree	8	13.1
Agree	42	68.9
Disagree	11	18.0
Total	61	100.0
NR	33	
In Start Up, Finance Accounts Receivables Using Longer Term Sources		
Strongly Agree	6	9.0
Agree	43	64.2
Disagree	18	26.9
Total	67	100.0
NR	27	

IMPLICATIONS

Most small business failures result from poor management. One area in which management failure is prominent is finance. If poor financial management is a problem, students in entrepreneurship and small business need adequate financial management preparation from their education. This paper was designed to discover what finance professors think about selected entrepreneurial and small business financial planning and management issues. We discovered that most finance professors agree with the assertions. Entrepreneurship and small business management students do not seem to get adequate treatment or do not learn what they need to know. Perhaps finance professors do not relate the concepts to small business start ups and small business management generally. Most basic finance classes seem to focus on corporate finance, meaning big business finance.

Those of us who teach entrepreneurship and small business may need to discuss the importance of financial management with our students and with our finance colleagues and see if some additional attention can be given to these important issues. If that is not possible, perhaps we need to take steps to insure that our students get the necessary education in our courses and, as a last resort; we may need to design courses in entrepreneurial and small business finance for our students. Entrepreneurial and small business planning and management are important to the survival and success of new ventures and must be given proper attention if entrepreneurship and small business programs are to translate into successful new ventures for our students.

SUMMARY AND CONCLUSIONS

Small business failures result from poor management. Poor financial management is an important aspect of those failures. While it was not the intent of this study to cover every issue in financial management, many of the issues studied are fairly common financial management issues that create problems for entrepreneurs in new ventures and small business owners. In general, most of the finance professors agreed with the assertions presented. Some however did not agree with some of the more important issues. It seems that the professors agree, but may not be covering the concepts as they relate to small businesses well enough for our students and/or are our students just not learning the concepts. Many of the basic finance courses in colleges of business focus on corporate finance and may not cover the basics of small business finance.

With the increasing number of students entering entrepreneurship and small business, proper attention to those finance fundamentals is important. Professors of entrepreneurship and small business need to take the lead in developing the necessary coverage of financial planning and management for small businesses through existing finance, entrepreneurship and small business classes or, as a last resort, design new courses to insure that coverage.

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INNOVATION: THE SOUL OF ENTREPRENEURSHIP

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ABSTRACT

Innovation of some type is a hallmark of the entrepreneurial psyche. Research has indicated that it is a characteristic of the entrepreneur. This treatise indicates how to create an environment conducive to innovation and indicates that sometimes only psychic rewards are gained through its endeavor. However, some element of innovation is necessary for survival.

INTRODUCTION

Innovation is the Soul of Entrepreneurship. How dare we make this assertion you may ask? Aristotle defined the soul "as the core essence of a being" (Soul, 2007) and that is how we feel about the essence of entrepreneurship: innovation truly is an economic engine, the vital essence of true entrepreneurship.

Innovation typically involves creativity, but is not identical to it: innovation involves acting on a creative idea to make some specific and tangible difference in the domain in which the innovation occurs (Amabile, Conti, Coon, Lazenby & Herron, 1996). Amabile et al. (1996) proposed the following definition:

"All innovation begins with creative ideas . . . We define innovation as the successful implementation of creative ideas within an organization. In this view, creativity by individuals and teams is a starting point for innovation; the first is a necessary but not sufficient condition for the second."

In our view, innovation is the tangible expression of creativity. From an entrepreneurial perspective, innovation is the creation of a new

product or service, or a new method or combination. The marriage of innovation and entrepreneurship requires one to visualize the process. First is the vision, the idea, the concept which gradually materializes in our minds and our hearts; an idea that we simply know is great. It can be described as that "Eureka!" moment of true discovery. We create or develop these ideas and concepts in our minds, we refine and develop them, generally through discussion with others. Finally, we must translate those ideas and concepts into reality. If innovation is to have more than psychological value, it must become more than thought. It must become tangible.

Yet if we stop here, then where is the value to humanity? Is our creation something we feel compelled to share, or will we be satisfied with the secret knowledge of our own creation? Is our creation of potential value to others? If so, then could we find both psychic and financial reward from its becoming? Entrepreneurship is the process of this translation. We create an enterprise which brings our concept to life. Now, we can enjoy the psychic reward of creation while we share our great discovery with the world.

TYPES OF INNOVATION

Creativity has many forms as we see in the literature. Paul Torrance (1979), an early writer in the field, described four elements of creativity. Fluency refers to the production of a great number of ideas or alternate solutions to a problem. Fluency implies understanding, not just remembering information that is learned. Flexibility refers to the production of ideas that show a variety of possibilities or realms of thought. It involves the ability to see things from different points of view; the ability to use many different approaches or strategies. Elaboration is the process of enhancing ideas by providing more detail. Additional detail and clarity improves interest in, and understanding of, the concept. Last is originality which involves the production of ideas that are unique or unusual. It involves synthesis or putting information about a concept together in a new way (Torrance, 1979). While these elements of creativity connote pure ideas, their translation into a tangible innovation usually results from either elaboration or originality. This means that the translation of an idea into reality typically involves the creation of a new product or service or the enhancement of an existing product or service. In the realm of business, we often see entrepreneurial firms innovate as evidenced by originality while in larger firms creation of a new use for an existing product or service, the combination of existing products or services in new ways or simply the enhancement of the ingredients, packaging, advertising or message, are the preferred methods of innovation. In fact, in an early study Edwards and Gordon (1984) reported that small businesses produced 2.4 times the innovations of their larger cousins and

the pre-eminence of small firms in innovation is still evident in a 2005 study conducted by Baumol (2005).

As early as 1934, Joseph Schumpeter, often identified as the “father of entrepreneurship,” called innovation, “creative destructionism.” He elucidated upon this commentary by enumerating the aspects of innovation-generating creative destruction in an industry: new markets or new products; new equipment; new sources of labor or raw materials; new methods of organization or management; new methods of inventory, transportation, communication, advertising or marketing, etc. (Schumpeter, 1934).

Schumpeter’s (1934) view is complementary to Torrance’s (1979) perspective of elaboration and originality. He went on to explain that these innovations could destroy old markets, old products, old services, old ways of doing business. Hence the creation of the innovation resulted in the destruction of its predecessor.

APPLICATIONS OF INNOVATION

In large measure we owe our national standard of living to the fruits of creativity. The innovations that have taken tangible form over the years constitute all of the products and services which we enjoy. Collectively, these innovations create and continue to evolve the economy of the nation, and of the world. A powerful perspective, but one which suggests an important question. How were all of these fabulous innovations translated into workable components of the economy?

The applications of innovation hold special significance for us.

There are several paths to innovation application. One which is

frequently overlooked is gifting of the intellectual property. We frequently forget about the vast impact of freeware, open source software, the sharing of ideas, research, insights and breakthroughs. Conferences, academic publication, informal discussion groups, and a myriad of idea communication and distribution networks have evolved in the United States and the world. These innovation sharing networks continue to be a powerful factor in the evolution and application of technology, knowledge and innovation of all types and in virtually all fields; perhaps the most powerful. One could argue that the Internet itself is simply an outgrowth of the desire to share ideas and insights: the ultimate network.

The virtually complete absence of financial incentives involved in these networks form no impediments to the application of innovation. Some people might even suggest that the absence of financial incentives enhances the innovation process. It is the sharing of ideas and the exchange of insights that drives innovation, so the more minds we involve in the process, the more powerful the results and the more rapidly the innovation emerges. If we have people who are focused on making money from an innovation, they tend to be more reticent about sharing ideas and tend to take steps to protect the intellectual property.

The pervasiveness of this view among academic and philanthropic groups and networks of social entrepreneurs makes it clear that psychic rewards are real and are real drivers of the creation of innovation. Being the parent, even just one of the parents, of an innovation brings a vast sense of satisfaction. Humans have an

innate need to create and that drive is the real source of the individual payoff for the work and effort involved in innovation. The power of these psychic rewards is incalculable. However, the actual application of innovation in society is not purely the result of altruism. It takes money to perfect an innovation and distribute it to consumers of that innovation. This is commercialization: casting the innovation in tangible form which is ready for consumption and delivering it for consumption to the people of the community, region, nation and world.

Clearly the profit motive is a powerful one, but not the only one. Consider electricity. Virtually everyone in the United States can afford electricity. That is largely the result of low cost production, but it required the efforts of a great number of local rural cooperatives to develop the last miles of power lines for delivery to less profitable venues.

The point is that society cannot enjoy an innovation without commercialization of that innovation. It is equally clear that the commercialization process has the potential to create profit, and sometimes, vast wealth. The pursuit of such wealth is a potent driver of creativity and innovation, although that pursuit may not be as powerful as the psychic driver.

Consider the interest in patents. The idea that one can invent something and license it for commercialization to a large firm is so pervasive in our society that it is almost a cliché. In reality, this seldom happens. Only a tiny number of inventions, less than 3%, are actually licensed to large firms on a royalty basis and make money for their inventors (Stim, 2006). There are really very few inventors who are

making a living in research and development. Most of the people we think of as inventors, were, and are, actually entrepreneurs.

We know that large firms do actively engage in research and development, investing money in the process, with the idea of commercializing innovations which result for the benefit of the company. Yet, there is really very little real innovation which flows from this process in most industries. There are exceptions, of course, like pharmaceuticals, but by and large, original innovations flow disproportionately from entrepreneurial enterprises (Edwards & Gordon, 1996; Baumol, 2005).

American folklore makes it clear that the best way for innovation to reach the people is for the innovator to create an enterprise to commercialize it. That is the American Dream; to become an entrepreneur. The pioneers that settled our nation were not just fleeing religious persecution, they were seeking the opportunity for economic self sufficiency. It is no accident that our early history demonstrated the power of that drive as our people covered the world with Yankee trading ships. We were founded as, and we are today, a nation of entrepreneurs.

ENTREPRENEURSHIP: THE ULTIMATE EXPRESSION OF INNOVATION

It is generally accepted that entrepreneurs “serve as agents of change; provide creative, innovative ideas for business enterprises; and help businesses grow and become profitable” (Kuratko & Hodgetts, 1998). In an early work in 1984, Carland, Hoy, Boulton and Carland proposed to define an entrepreneur as,

“an individual who establishes and manages a business for the principal purpose of profit and growth... characterized principally by innovative behavior and [who] employs strategic management practices”. In contrast, they defined a small business owner as, “an individual who establishes and manages a business for the principal purpose of furthering personal goals” (Carland et al., 1984). That definition enjoyed initial widespread acceptance, and has recently emerged again as potentially useful. In 2003, a group of Australian researchers noted that the Carland et al. (1984) definition embodied five basic dimensions: establishment status (venture founder or non-founder); profit importance; growth orientation; innovative behavior; and the use of strategic management practices (Johnson, Newby & Watson, 2003). Their research demonstrated that the most important and powerful differentiating factor was innovation.

In a later paper, Carland, Carland and Stewart (1996) defined entrepreneurs much more simply as those who have “...the ability to see what is not there”. They actually believe that such vision must be coupled with the drive to make the vision real. In essence, this perspective of the entrepreneur suggests that he or she has the intuition and insight to recognize an opportunity to establish products, services, and industries where none now exist; and, also has the ability to create an opportunity to establish products, services and industries. This ability to see into the future, to dream of possibilities, and to dare to act is that series of attributes that drive entrepreneurs to turn dreams into reality. This, indeed, is innovation in action: a tangible, profitable, creation

which drives the wealth and welfare of people and nations. At every phase, innovation is the driving force: the ultimate expression.

FINANCIAL ASPECTS OF ENTREPRENEURSHIP

Most economists seem convinced that innovators do not reap financial rewards for their efforts. In a sample of 1,091 patented inventions, Astebro (2003) reported that the average internal rate of return on a portfolio investment of those inventions would yield only 11.4%. Even worse than the mean data, Astebro (2003) reported in this highly respected study that the median return on such a portfolio was actually negative. Even that statement fails to capture the seriousness of the study. Of the 1,091 patents, only 75 patents (7%) actually reached the market; which means that 93% never saw the light of day. Further, sixty percent (60%) of the patents which did reach the market, lost money. This leaves only 30 patents (2.7%) which actually made money. Of those, six (6) inventions created real wealth for their creators, with the top return at the 1,400% level. The net result of the study suggested that one half of one percent of inventions really are successful (Astebro, 2003).

Astebro's (2003) findings were consistent with virtually all of the other studies, and there have been a number of these studies. Nordhaus (2004) estimated that innovators capture only about 2.2% of the returns from an invention, and Baumol (2002) had similar findings in his study.

If we accept the findings of these respected researchers, then we are left with a burning question in our minds: So, why innovate? If the

financial rewards for innovation are as rare as a lightning strike, then is all of the creative effort driven by psychic rewards? Is the only thing that propels innovation, the need to create?

We cannot accept that proposition because it would imply that most commercializations occur through the process of businesses sifting through the various networks of academics, idealists, social entrepreneurs, and inventors to find marketable innovations among the gifted intellectual property. That is not what happens. There might be an occasional innovation that an enterprise discovers from the mountain of developments that are being gifted to society each day, but most innovations are brought to market for one of two reasons. Either the sponsoring enterprise is virtually certain of financial success, or the sponsoring enterprise is an entrepreneurial venture engaged in the great social experiment of proving the viability of a new innovation.

INNOVATION IN ENTREPRENEURIAL ENTERPRISES

We all know that not every entrepreneurial enterprise is innovative. You can probably name a dozen ventures near your home which seem to do exactly the same things as everyone else. However, it is clear that those entrepreneurial enterprises which practice innovation grow more strongly and become more vibrant (SBA, 1995).

There are numerous studies which demonstrate that entrepreneurial ventures disproportionately produce new products and services. Many of these studies use patent activity as a proxy for innovation in general because it is easier to measure. One impressive

study sponsored by the Office of Advocacy of the U.S. Small Business Administration examined 194,000 patents filed by more than 1,000 firms between 1996 and 2000 (SBA, 2007). In comparison to patents produced by large firms, the study concluded that a patent filed by a small business was more than twice as likely to be among the top one percent of most frequently cited patents; that small firms represent one third of the most prolific patenting companies; and, that small firm research is substantially more high tech or cutting edge and twice as closely linked to scientific research (SBA, 1999). This study clearly demonstrates the value of small firms in producing economic wealth for the United States.

We have already talked about the tendency for true breakthrough innovations to arise in entrepreneurial enterprises. From airplanes to hydraulic brakes to pacemakers to safety razors to zippers (SBA, 1995), we owe much of our standard of living not to the safe, secure, risk-free research and development efforts of major companies; we owe it to entrepreneurs with limited resources and big ideas! There was a great entrepreneurial movie produced by George Lucas in 1988 called *Tucker: The Man and His Dream* (Schulman & Seidler, 1988). Francis Ford Coppola had long admired Tucker and when he asked Lucas to produce the film under his direction in 1988, the team won three Academy Award nominations and produced a film for the ages. In the closing scenes of the film, set in 1948, Tucker, the developer of the most innovative car in history, had actually built 51 automobiles, but was facing bankruptcy and prison time for securities fraud. The Tucker Car

Company died along with his dream for a breakthrough in the automobile industry, but Tucker tosses off the loss with perfect aplomb, "Those are just machinery! It's the idea that counts, Abe! And, the dream!" (Schulman & Seidler, 1988). An earlier, and much less frequently cited quotation occurs in the film when the manager of Tucker Cars is on the witness stand testifying against Tucker. This manager had been installed by stockholders to hold back the tempestuous Tucker, and to protect their investment. An experienced manager, he explained to the jury, "A well managed company doesn't innovate! Unless, of course, it is forced to by its competition!" (Schulman & Seidler, 1988).

Tucker did not live to see his innovations become commonplace in modern automobiles, but one wonders if he really cared. After all, he built the car of his dreams: 51 of the beauties, 44 of which are still operational today! If you believe in psychic rewards even in the slightest, then you know he has to still be smiling somewhere!

Tucker made and lost several fortunes in his life, and when it ended he was trying to raise money to start yet another company in Brazil. The interesting thing about the entrepreneurial psyche is that it doesn't seem to matter whether money is made or lost; the drive to innovate survives. Steve Jobs sold all but one share of his stock in Apple on the day he was fired for a reputed \$130 million. The next day he started NeXt, the company he sold back to Apple 17 years later when he became CEO again (Jobs, 2007). Such legends ignore the millions of serial entrepreneurs throughout history who lost everything in a venture, and pulled themselves up to launch yet another dream. Ted Turner may have

thrown himself into philanthropic work, yet he has three business ventures ongoing, including a new one he started in 2007 (Turner, 2007). Money is a tool in the hands of an entrepreneur and the best way to use that tool seems to be in driving more innovation.

The stories of these macroentrepreneurs (Carland & Carland, 1997) may be the stuff of legend, but ask an entrepreneur in your neighborhood what he or she is doing differently from the competition and you are likely to initiate a discussion of innovations tried, abandoned, and adopted in a continuous effort to make the venture more viable and more successful. Entrepreneurs do not just go to work every day and wait for the weekend. Entrepreneurs are immersed in their ventures and that immersion drives their interest in innovation and their need to continuously create. Listen to managers talk and compare that to the conversation of entrepreneurs to see the disparity in their perspectives. Managers talk about their last vacations, last weekend, next weekend, their next vacations; they talk about their lives outside the business. Entrepreneurs talk about their lives inside their businesses and their conversation is peppered with stories of the business and their efforts in it; frequently punctuated with descriptions of innovations. New methods of competition and the validity of new products and services are played out on the entrepreneurial stage and when the give and take in the market place makes it clear that a new wave is coming, entire paradigms shift. Industries die and new industries are born. It is a complex interplay between small businesses and large. The small tend to lead the way and prove the

concepts; the large tend to devour the small then apply economies of scale to drive down costs and expand the application of the innovation to the masses. But, we must never lose sight of the fact that the originating innovation is almost always entrepreneurially based.

THE ENTREPRENEURIAL MINDSET

The process is clear: entrepreneurs initiate business ventures. What is not clear is why they do so. The debate continues to rage about entrepreneurial behavior and this singular act of individual volition which is so vital to a nation's economic health and well being. The drives and personalities continue to be debated. In 1988, Bill Gartner asked, "Can one know the dancer from the dance?" (Gartner, 1988). Is it even important to try? A rejoinder to Gartner in 1988 was proffered by Carland, Hoy and Carland (1988) who thought that one could not understand the dance without understanding the dancer. Surprisingly, this debate in the entrepreneurship literature continues to this very day, and researchers still cannot reach a consensus about the entrepreneurial mindset, or even the necessity to understand that mindset (Johnson et al., 2003).

According to Carland et al. (1988), the dance takes on the personality of the dancer. It is the dancer who interprets the dance and each artist makes the process his or her own. They suggest that if we seek to understand the entrepreneurial process, we must have insight into the entrepreneurial psyche. This is especially true if we wish to design educational and training programs which can actually help prospective

and practicing entrepreneurs.

We have talked a bit about psychic rewards and the continuous emphasis on innovation, but does that mean that the potential for financial return is not a major factor? Baumol (2005) reports that there is systematic evidence dating back to the 1970s that self employed people make significantly less money than employees with similar qualifications. However, virtually all of the studies that deal with issues involving entrepreneurship and entrepreneurial ventures are cross-sectional in nature. That is, they are not longitudinal studies and may not be reflective of the underlying realities.

For example, consider how real wealth generally comes calling in a business venture. The folklore may suggest that it revolves around “going public.” In reality, that is the path chosen by only a few ventures. By far the majority of the entrepreneurs who become wealthy do so by selling the enterprise. These sales are private sales, consequently, real information about the financial ramifications is not captured in economic databases and is absent from cross-sectional studies.

We are left with the question, how often does it happen? How many entrepreneurs really do make a great deal of money? How many actually outperform their employee brethren? We don’t have an answer for that, but we do know that it does not matter. What matters is whether entrepreneurs have a perception of the potential for profit. Behavior is driven by perception, after all. So, if there is widespread belief that real wealth opportunity exists in entrepreneurship, that perception could well influence behavior.

Anecdotally, we believe that the

perception of the potential for financial returns is widespread among entrepreneurs. We have consulted with hundreds of entrepreneurs over the last 30 years. It is certainly true that there are many people who have settled into a family-owned business and who appreciate the ability to make a living doing things they enjoy while making their own decisions about their lives. However, there are also many people who truly believe that real wealth is just around the corner. We believe that the potential for profit is a major driver of behavior. Even the entrepreneurs who talk about pending wealth, however, always mention the life style. In no other profession, they say, do you actually determine your own fate and define your own destiny. In no other profession do you get to prove the validity of your own ideas, and have the potential for great wealth. These are powerful motivators!

ENVIRONMENT FOR CREATIVITY

Typically, innovation does not occur on demand and yet that is what we often hear in the corridors of the large corporations. “We need a new product, a new idea, a new market!” “Quick, let’s brainstorm!” While some of us have many ideas, others of us have fewer. Idea people usually are not as qualified to evaluate their ideas for commercialization. It is almost as if we have dreamers and doers and we need a marriage between the two to turn those dreams into reality. That is one of the reasons for the power of an entrepreneurial team. But, again, creativity does not happen at the snap of a finger. We need to have the right environment, the right culture, the right philosophy and the right people.

Most of the stories of truly innovative ventures have all of the best of these “rights.” Take IDEO (Kelley & Littman, 2001), Mars (Brenner, 1999), Google (Vise & Malseed, 2005), and Southwest Airlines (Freiberg & Freiberg, 1996), as examples. They are quite successful companies who began much as you, some with more money and some with less, with a dream of providing the best products or services that they could provide while having fun and being profitable and helping others. Each of these ventures created an open environment: one in which questions were welcome, discussion was expected, ideas were respected and possibilities were challenged. The structure allowed for openness and communication with the founders. There were no ivory towers, but constant engagement and lots of fun. Open areas, not enclosed rooms, gave the opportunity for the cross-fertilization of ideas, much as that process originally occurred in Edison’s Invention Factory (Beals, 1999).

Edison provides a wonderful role model for the marriage of innovation and entrepreneurship. A great practical joker, he encouraged fun, and experimentation, and had a healthy respect for those who had tried and failed. Many of the founders of the most innovative companies embraced failure as it not only showed initiative, but also resulted in learning on the part of the individuals who had attempted the impossible but discovered something else. Edison pursued invention for the purpose of creating commercializable products. His failure to find a market for his first invention, an electric vote counting machine, led him to vow never to waste time inventing things that people would not

want to buy (Beals, 1999). We suspect that he was still prey to the psychic rewards of innovation, but recognized the need to make money to keep his stream of innovations flowing. His remarkable career was more about entrepreneurship than invention as he created a network of companies to exploit the products that flowed from his “invention factory.” Among these was the Edison General Electric Company, which became General Electric.

One of the adages which seems to be responsible for the immense success of Stanford University graduates, Brin and Page of Google fame, has become a favorite of ours. The command is to “...create a healthy disregard for the impossible”(Vise & Malseed, 2005). With such direction, how could one not innovate!

IMPLICATIONS

This paper is our attempt to light a candle against the darkness for practitioners and academics. Innovation is necessary for the true success of a business and yet daily we erect barriers to its existence; we suggest that there is a right way to do things; we direct others to come up with new ideas that are foreign to us and which we know that we are not going to adopt; we cry out for ways to combat the competition while continuing to follow the status quo. To fully light up the darkness, we must break down those barriers and we must embrace innovation and begin the process of teaching its elements to our students and our practitioners. We must help entrepreneurs to understand that “success can sow the seeds of its own destruction” (Grove, 1999). Doing things the way they have always been done breeds complacency and

complacency breeds the ultimate demise of the company for lack of attention. We must believe in innovation, we must work at it and we must teach it.

CONCLUSION

Oliver Wendell Holmes (Holmes, 2007) is credited with the following observation: “A mind once stretched by a new idea never regains its original dimensions” And yet we find that years of disuse has led to stagnation in the creative psyche of so many people. In business, creativity was frowned upon as a non-serious pursuit for many years, until the realization that new products, services and processes came from creative minds. But the inverse of Holmes’ insight was found to be prevalent; i.e., that minds not used in creative pursuits become atrophied and inactive. Then, when asked to “come up with a great new idea,” there is frustration and impotence.

We need to exercise our minds and do it daily in pursuit of new and wonderful thoughts. A few enterprises are adapting strategies to support the development of these new mental pathways. These include retreats in which employees engage in creative activities as well as using flex-time for the pursuit of original endeavors.

Most exercises and activities can be fun. Brain teasers, incomplete drawings, creative problem solving exercises, problem identification and brainstorming can be quite useful to stretch the mind. The key at the initial stages is to be playful, not judgmental. Too often in business, the urgency expressed to “come quickly to commercialization” prevents really good ideas from being explored. Judgment expressed too early can result

in satisficing rather than excelling. Experimentation is to be applauded and yet it is seen as expensive in most large companies and failure can lead to career limiting results.

The IDEO philosophy (Kelley & Littman, 2001) is that individuals in both large and small enterprises can be innovative and creative. You need to create a fun environment, a playful attitude, the encouragement of wild ideas, the recognition of the value of collaboration of diverse minds on a task and the understanding of the role of failure.

What a better world it would be if we could encourage creative thinking, stretching minds to embrace truly great ideas for the betterment of mankind! Innovation carries its own rewards, but financial success is a great companion. Entrepreneurship is the greatest vehicle we know to allow us to simultaneously envision, dream, analyze, create and profit. It is a life journey like none other. Innovation is its heart and soul, and in no other enterprise can you live your life as your intuition dictates and enjoy the success that your mind creates. We encourage you to: Dare to Dream!

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**NAVIGATING B2G FOR MINORITY AND WOMEN BUSINESS
ENTERPRISES:
DEVELOPING AN INITIAL FRAMEWORK FOR SMALL BUSINESSES
TO SELL TO THE GOVERNMENT**

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ABSTRACT

This study provides an initial overview of ways to foster business-to-government (B2G) sales revenue for minority and women business enterprises. The General Services Administration, the FedBizOpps.gov, the Minority Business Development Agency, the Small Business Administration's 8(a) program, and the Procurement Technical Assistance Centers are discussed to represent distinct facilitators of B2G trade. The controversy of preferential procurement programs is developed to debate whether these targeted programs are making minority and women business enterprises competitive. We conclude with an array of future research questions—such as whether these programs have effectively assisted firms, such as women-owned business overcome the credibility issues they face in today's business environment.

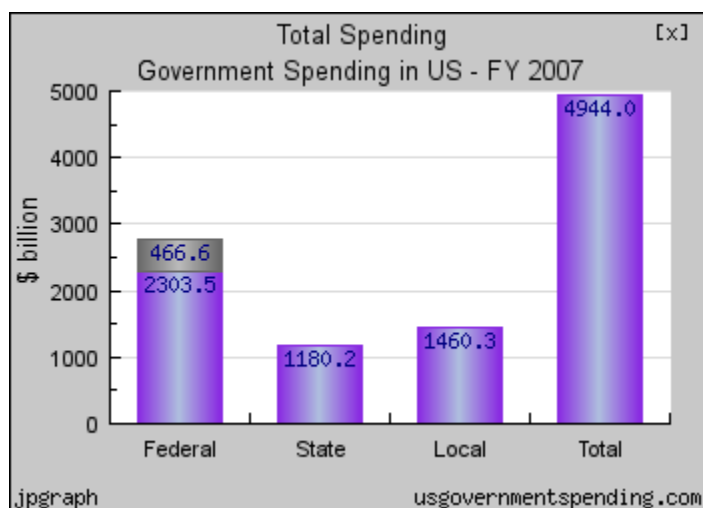
INTRODUCTION

In today's turbulent economic times small business owners are facing a daunting task of keeping their businesses solvent in the face of a further credit crunch. On September 19, 2008 the *Wall Street Journal* proclaims that the recent financial crisis that tumbled finance and insurance giants such as Lehman Brothers and AIG will trickle down into more mainstream businesses. The recent article states, "One reason the economy isn't in worse shape is because credit-worthy businesses on Main Street have, for the most part, continued to get loans to build facilities and buy new

equipment. In August (2008), 10% of businesses surveyed by the National Federation of Independent Business said loans were harder to get than they were three months earlier" (Lahart et al, 2008, p. A3).

While facing the recession, a better understanding of a framework to navigate the various ways to sell to the government (business to government or B2G) is a key business question facing both large and small businesses. Figure 1 illustrates the sheer magnitude of government spending for FY2007 (<http://www.usgovernmentspending.com/#usgs302>).

Figure 1



The big four areas that consume government expenditures are pensions, health care, education and defense. But, the key question in the B2G arena, is not the aggregate numbers, but how his/her firm can capture a part of the insatiable appetite of federal, state and local governments to provide an array of services to its constituents. The B2G Institute website claims that \$327 billion of government contracts will be available to business in 2008 and that approximately \$70 billion will be reserved for small businesses (www.b2ginstitute.com, ¶2). This training institute's website claims that the 5 myths that prevent small business owners from entering the B2G market center on these incorrect assumptions (<http://www.b2ginstitute.com/myths.aspx>):

- My firm is too small and the contracts are too big;

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

A quick perusal of the 5 largest recipients of government contracts in 2007 compared to small business contracts is given in Table 1. Clearly, the defense industry dominates the top five lists for non-small business owners with Lockheed Martin, Boeing, Northrup Grumman, and the like. The contract revenues for GTSI, categorized as a small business, stem from defense contracts also.

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

Company	2007 Contract Revenue	Small Business	2007 Contract Revenue
Lockheed Martin	12,679,523,202	GTSI	\$411,140,380
Boeing Co.	7,300.000,000	Nana Regional Corporation	\$332,528,981
Northrop Grumman Corp.	6,821,000,000	RS Information Systems	\$327,677,852
KBR Inc.	5,517,070,621	Chenega Corporation	\$313,059,297

Source: www.washingtontechnology.com/top-100/2007

For a more detailed list of the 'Top 100' small business companies, visit Washington Technology website at http://www.washingtontechnology.com/top-100/2007/small_businesses.html.

RESEARCH PROBLEM

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

BACKGROUND

Definitions of M/WBE

A broad definition of a minority business enterprise (MBE) and Women Business Enterprise (WBE) is given as follows

<https://supplier.intel.com/stt/Definition.aspx>, 3):

MBE:

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

WBE:

A business that is not less than 51% owned by one or more women; or in the case of any

publicly owned business, not less than 51% of the stock must be owned by one or more women, and whose management and daily operations are controlled by one or more women.

The key metric used is the 51% ownership criteria for a firm to qualify as an MBE and/or WBE [we collapse the acronyms to M/WBE]. Sonfield (2001) reports that the ownership criteria for MBE were changed in 2000 by the National Minority Supplier Development Council (NMSDC) to 30%. However, the 51% threshold for both minority and female-owned

businesses appears to hold for many governments procurement agencies. We realize that there are many other categories of disadvantaged firms, such as the HUBZone companies that operate in underdeveloped business zones, but for the purposes of this paper, we limit the scope to address programs that will help minority and/or women business enterprises (M/WBE).

Estimated Size of the MBEs

The Minority Business Development Agency (MBDA) of the U.S. Department of Commerce in its FY2007-2010 Strategic Plan outlines the growth of minority-owned businesses using U.S. Census data for 2002 as shown in Table 2 below.

Table 2

Ethnic Group	1997 Total Firms	2002 Total Firms	Percent Increase In Firms	Total Gross Receipts 1997	Total Gross Receipts 2002	Percent Increase In Gross Receipts
Hispanic	1,200,000	1,574,000	31%	\$186.3 Billion	\$226.5 Billion	22%
African American	824,000	1,198,000	45%	\$71.2 Billion	\$92.7 Billion	30%
Asian	894,000	1,105,000	24%	\$304.0 Billion	\$343.3 Billion	13%
American Indian & Alaska Native	197,000	206,000	4%	\$32.3 Billion	\$26.4 Billion	-23%
Hawaiian / Pacific Islander	19,000	32,000	67%	\$3.9 Billion	\$5.2 Billion	27%
Minority Totals	3,039,000	4,116,000	35%	\$591.3 Billion*	\$694.1 Billion	17%
Total U.S. Firms	20,822,000	22,977,000	10%	\$18.6 trillion	\$22.6 Trillion	22%

Ethnic Distribution of Minority Firms (Census SBO data for 2002)

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

Industry	All U.S. Firms	All Minority Groups	African American	American Indian and Alaska Native	Asian	Hispanic	Native Hawaiian and Other Pacific Islander
Agriculture, Forestry, Fishing, and Hunting	1.1%	0.6%	0.3%	2.2%	0.6%	0.6%	1.7%
Mining	0.4%	0.1%	0.0%	0.5%	0.0%	0.1%	S
Utilities	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	S
Construction	12.1%	8.8%	6.3%	16.0%	3.5%	13.5%	10.0%
Manufacturing	2.6%	1.7%	0.8%	2.9%	2.1%	2.0%	1.1%
Wholesale Trade	3.1%	2.4%	1.0%	2.1%	4.2%	2.2%	1.3%
Retail Trade	11.2%	10.4%	8.5%	10.1%	13.7%	9.6%	12.0%
Transportation and Warehousing	4.2%	7.0%	8.3%	5.0%	4.7%	8.0%	6.8%
Information	1.3%	1.1%	1.2%	1.3%	1.1%	0.9%	1.1%
Finance and Insurance	3.9%	2.4%	2.4%	2.4%	2.7%	2.1%	1.8%
Real Estate and Rental and Leasing	9.3%	5.0%	4.4%	4.6%	6.8%	4.4%	6.1%
Professional, Scientific, and Technical Services	14.2%	10.5%	9.7%	10.9%	13.9%	8.8%	10.1%
Management of Companies and Enterprises	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Administrative Support, Waste Management, and Remediation Services	6.8%	9.8%	10.1%	8.0%	4.8%	13.2%	11.3%
Educational Services	1.8%	1.6%	2.1%	1.8%	1.4%	1.2%	1.4%
Health Care and Social Assistance	8.8%	14.1%	20.5%	12.2%	11.1%	11.5%	14.3%
Arts, Entertainment, and Recreation	4.2%	3.3%	4.5%	4.5%	2.4%	2.8%	5.3%
Accommodation and Food Services	2.9%	4.4%	2.1%	1.7%	9.4%	3.0%	1.8%
Other Services	11.6%	16.5%	17.6%	13.3%	17.0%	15.8%	13.0%
Unclassified	0.4%	0.3%	0.2%	0.3%	0.5%	0.3%	S

- The number of African American firms increased by 45% and generated \$93 Billion in gross receipts.
- Likewise, Native Hawaiian and Other Pacific Islander firms increased by 67% with \$5.0 Billion in receipts.

- Hispanic-owned firms grew by 31% with \$226 Billion in gross receipts.
- Asian Firms grew by 24% with \$343 Billion in gross receipts.
- American Indian & Alaskan Native Firms increased 4% with \$26 Billion in gross receipts.
- Average gross receipts for all minority firms decreased 13% from 1997 to 2002.

Concentration of MBEs by Sector

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

Table 3
Percent Distribution of Firms by Industry Sector

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

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

Estimated Size of the WBEs

The Center for Women's Business Research claims that there are currently 7.2 million firms that have at least a majority of ownership (51%) that employ 7.3 people with projected sales of \$1.1 trillion in 2008 ([www.nfwbo.org/facts/index.php8, ¶ 3](http://www.nfwbo.org/facts/index.php8,¶3)). Like the data presented above for the MBEs, the 2002 U.S. Census data captures a very detailed view of this

segment of the business population and a comprehensive report is located at <http://www.census.gov/prod/ec02/sb0200cswmn.pdf>. The major highlights of this 2006 report, *Women-Owned Firms 2002*, are listed below:

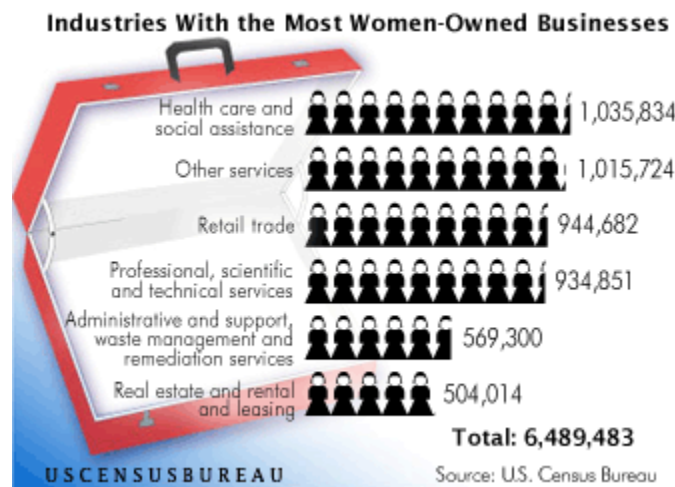
- In 2002, nearly 1-in-3 women-owned firms operated in health care and social assistance, and other services, such as personal services, and repair and maintenance. They owned 72 percent of social assistance businesses and just over half of nursing and residential care facilities.
- Wholesale and retail trade accounted for 38.3 percent of women-owned business revenue.
- There were 117,069 women-owned firms with receipts of \$1 million or more.
- There were 7,240 women-owned firms with 100 employees or more, generating \$275 billion in gross receipts.
- States with the fastest rates of growth for women-owned firms between 1997 and 2002 were Nevada (43 percent), Georgia (35 percent), Florida (29 percent) and New York (28 percent).
- Counties with the highest number of

women-owned firms were Los Angeles County, Calif. (265,919); Cook County, Ill. (130,418); Miami-Dade County, Fla. (88,173); New York County, N.Y. (86,364); and Harris County, Texas (86,042).

Concentration of WBEs by Sector

Women-owned firms are clearly underrepresented in industry sectors that target the B2G sector, such as defense and construction. Figure 2 reveals the concentration of women ownership based on the 2002 U.S. Census data below. This lack of business experience in certain sectors will be addressed again with studies that have looked at whether WBEs have been discriminated against in both the B2B and B2G marketplaces.

Figure 2



Source: U.S. Census Bureau, 2002

Federal, State and Local Government Programs

A synopsis of some of the major procurement agencies at the Federal, state and local levels is given to depict the layers of agencies that solicit business from M/WBEs. We acknowledge that there are several more agencies that could have been discussed in this section, but, the goal is to *briefly* discuss some of the more prevalent programs.

General Services

Administration/FedBizOpps

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

- General-purpose supplies, equipment and services,

- Building construction, repair, and maintenance, and
- Information technology and network services.

The federal agency will also buy or lease office space, real estate and/or vehicles for federal agencies (Selling to

the Government, ¶ 3). Under the GSA jurisdiction, government contracts over \$25,000 are listed in its FedBizOpps at www.gsa.gov/fedbizopps. Figure 3 below illustrates their homepage that is designed to match the needs of private sector business with government buyers.

Figure 3



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

A guidebook for potential vendors, *FBO.GOV Vendor Guide 1.4* is linked to this government site (https://www.fbo.gov/downloads/FBO_Vendor_Guide.pdf) and offers a 58-page resource for companies on how to actually set up an online account, provide company information and the like. This website links to the Minority Business Development Agency (MBDA) in the U.S. Department of Commerce.

U.S. Department of Commerce Minority Business Development Agency

The Minority Business Development Agency (MBDA) proclaims itself to be the *only* federal agency designed to foster the growth of minority-owned business. Its mission statement is simple and straightforward, “The Minority Business Development Agency mission is to enhance the growth and expansion of minority business enterprises” (www.mdba.gov). The agency works

with MBEs through its network of Minority Business Development Centers (MBDCs), Native American Business Development Centers (NABDCs) and Business Resource Centers (BRCs). The agency has five distinct regions located throughout the U.S. in Atlanta, Chicago, Dallas, New York and San Francisco. So, if the MBE is located in Wisconsin, the firm can click on the site for the Chicago region and is directed to one of the Minority Business Opportunity Centers (MBOCs) located in Milwaukee, Wisconsin. Under its business development initiative, the MBDA provides basic information ranging from ‘beginners essentials’ to ‘marketing’ for this type of firm.

Small Business Administration’s 8(a) Program

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

his/her personal residence and business), the ethnic origin of the business owner, gender, and the size of the business.

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

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

Maldives Islands or Nepal);

- And members of other groups designated from time to time by the SBA.

If a female small business owner does not fall into one of these groups, 190 can still apply for the SBA 8(a) program by proving that some type of discriminatory treatment has discouraged her business in the competitive marketplace.

After reviewing the web tutorial for the SBA 8(a) program, a company should immediately follow through with two key recommendations: register his/her firm with the Central Contract Registration and contact the nearest Procurement Technical Assistance Centers. First, a small business owner must register with the Central Contract Registration site (www.ccr.gov) to initiate a profile of the company in both the CCR and the Dynamic Small Business Search (DSBS). For example, the Small Business Administration's DSBS will give company information to contractors and the public. The CCR claims that there are currently 467,961 active registrants at its website.

Procurement Technical Assistance Centers

The Department of Defense links up with state affiliates to provide training for companies to sell their products to Federal, state and local governments through Procurement Technical Assistance Centers (PTAC). The government link to the PTAC is at <http://www.dla.mil/db/procurem.htm> and we will quickly highlight the two agencies linked to this page for the state of Wisconsin: the Business Procurement Assistance Center and the Wisconsin Procurement Institute. The Business Procurement Assistance Center (BPAC) claims that for FY2006-2007, the agency assisted over 1,000 Wisconsin businesses win over \$522 million in contract awards that is a sharp increase from the previous year of \$358 million (<http://matchmadison.edu/bpac>, 3). Furthermore, BPAC boasts that these government contracts resulted in 10,400 jobs either created or maintained and estimates that for every \$1 of its operating budget, \$644 is returned to Wisconsin businesses through these types of contract awards (<http://matchmadison.edu/bpac>, 3). The BPAC homepage illustrates the types of products that have been sold by Wisconsin firms in Figure 4.

EXAMPLES OF WISCONSIN PRODUCTS AND SERVICES THAT ARE SOLD TO THE FEDERAL GOVERNMENT



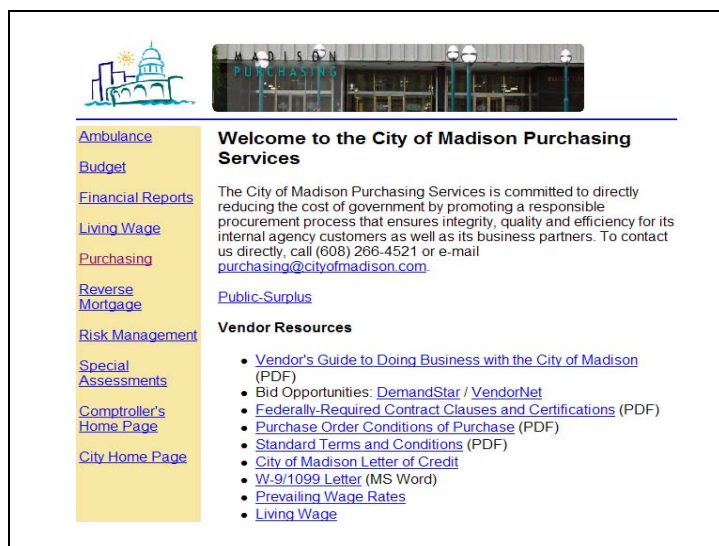
Figure 4

The Wisconsin Procurement Institute touts its B2G Connect program at its website (<http://wispro.org>) and provides a blog-like list of issues related to small business, such as the posting on April 23, 2008 titled, “VA Offers Plenty of Help for Entrepreneurs.” In terms of researching the government marketplace, a link is given for ‘buying offices/contacts’ for the Department of Defense where various agencies such as Fort McCoy (Fort McCoy, WI) and the Defense Supply Center in Philadelphia are listed. Linkages to other Federal agencies, such as the

Department of Veterans Affairs and the U.S. Postal Service are made available at this site. The two state agencies listed as potential buyers are the State of Wisconsin VendorNet and the WisBuild DOA Division of State Facilities. At the local level, direct links to the cities of Appleton, Green Bay, Kenosha, Madison, Milwaukee, Oshkosh and Racine yield information on contacting such purchasing agents as the Office of the Comptroller of the city of Madison. As shown in Figure 5 the city of Madison has its own website for potential vendors to review.

Figure 5

City of Madison Purchasing Services Website



There is an abundance of information provided by this major city, such as its *Vendors Guide to Doing Business with the City of Madison* at www.cityofmadison.com/purch/VendorSGuide.pdf. At this local level, the opportunities to sell can range from automobile and truck fleets, to road maintenance, to furniture for offices, and the like. Within this document, there is no mention of the city's purchasing policy regarding contracts given to MBEs. However, at another city website, under the subheading of "Targeted Business Enterprise Program" the local government outlines its initiatives for working with an affirmative action plan that mandates 10% of the city's public works should come from certified small business enterprises (Targeted Business Enterprise Program, ¶ 2). Under its MADcertification Program for the city, the definitions used to solicit business

from a variety of firms include the following:

- ***Small Business Enterprise (SBE)*** - an independently owned and controlled business with annual gross receipts of \$750,000 or less when averaged over the past three years.
- ***Minority Business Enterprise (MBE)*** - an independent business 51% or more owned and controlled by racial/ethnic affirmative action group members.
- ***Woman Business Enterprise (WBE)*** - an independent business 51% or more owned and controlled by women.
- ***Disadvantaged Business Enterprise (DBE)*** - an independent business 51% or more

owned and controlled by socially and economically disadvantaged individuals. Size restrictions as regulated by the U.S. Small Business Administration in 13 CFR apply (Targeted Business Enterprise Program, 6).

Supplementary Programs

There is a plethora of websites that cater to some type of linkage of selling to the government. There are also associations, such as the National Minority Supplier Development Council that work with disadvantage firms, such as M/WBEs with over 460 corporate clients, such as Aramark, KPMG, Kimberly-Clark, and the like (<http://www.nmsdconline.com>). However, we limit our discussion to two agencies, WomenBiz.Gov and Onvia, for illustration purposes only since many other agencies exist to serve M/WBEs in context of the B2G marketplace.

WomenBiz.Gov

This website is a program governed by the National Women's Business Council (www.nwbc.gov) and promotes itself as the "gateway for women-owned businesses selling to the federal government". The agency gives its five steps to government contracting in terms of meeting the basics, finding your market, getting started, finding federal contract opportunities, and key contacts. For example, under the step 'meeting the basics', the website provides links to other agencies such as the SBA, business.gov, offices of small and disadvantaged business utilization, and the like. In terms of 'finding your

market' female business owners are directed to acquisition central, federal acquisition service, FedBizOpps.gov, and the Department of Defense. Overall, a cursory review of this website is an adequate start to navigating the different support agencies that will assist a firm in the B2G marketplace. The site does offer some important gender-specific linkages to agencies, such as Women-21.gov, a joint effort of the U.S. Department of Labor and the SBA that focuses on issues related to women entrepreneurs.

Onvia

After trying to plot a logical course through various federal, state and local agencies that facilitate the B2G business for this paper, it was not surprising to find that the private sector yields many consulting-type firms like Onvia, the B2G Institute, and the like to help a business owner secure revenues from government contracts. Onvia is replete with reasons why a firm would "Win with Onvia" to grow its market share (www.onvia.com/fp/default.aspx). The Onvia Resource Center has a variety of information on its "whitepapers", local contracting, government subcontracting, federal government contracting, research and government business intelligence, contract management, government RFPs and Proposal Writing, and government marketing. The website also provides case studies of firms such as Synagro and WaterBlasting.com that have increased their government sales revenues with the assistance of Onvia.

Succinct Overview of Studies on M/WBEs

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

Debate on Preferential Procurement Programs

The Supreme Court decision of *Richmond v. Croson* in 1989 overruled a minority set-aside program in the city of Richmond, Virginia and set legal guidelines for future cases in terms of how preferential government procurement can be effectively used and implemented. Gray and Peery (1990) discuss some of the costs of securing tenders from disadvantaged businesses that include:

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

refusal to accept a waiver for the MBE work.

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

- ***Tracking appropriate data***—government officials must scrutinize how they come up with the number of minority firms that are both *qualified* and *willing* to work with government contracts;
- ***Using local information***—government officials need to develop better proxy measures using current data—for example is 2002 U.S. Census Data appropriate for the 2008 time frame?
- ***Generalizing data segments***—government officials need to delineate between primary contractors and subcontractors.
- ***Combining inconsistent sources of information***—government officials must validate their statistical measures. For example, some governments have incorrectly combined distinct data bases to

generate their statistical analysis.

- ***Inconsistently defining the expression of minority***—government officials need to ensure that the targeted firm (e.g., 51% minority-owned) matches the statistical data used to define a minority firm in their jurisdiction.
- ***Linking discrimination to disparity***—government officials require more sophisticated regression techniques to adequately prove discrimination as an explanatory variable.

Bates and Williams (2001) performed data analysis of MBE's from 1987-1991 to answer these two research questions: 1) Are MBEs that sell to government more likely to go out of business, other factors constant, than are other MBEs? 2) Are MBEs heavily reliant upon sales to government more likely to go out of business than others? (p. 295) To test these research questions, Bates and Williams conducted a regression analysis with longitudinal data (1987-1991) where the dependent variable was whether the firm was still active in 1991 and the independent variables were level of education, managerial experience, labor input of owner, firm capitalization, marital status, and market entry timing. The researcher's ran separate regression analyses for three distinct groups: 1) MBEs that had no government contract work; 2) MBEs with 25% or more of their sales derived from government work; and 3) MBEs with total sales obtained through government contracts. The major outcome of their statistical analysis was

that MBEs with no government contracts performed relatively the same in terms of their survival prospects as MBEs with some government-related sales revenue. However, MBEs with total reliance on government-based contracts experience a lower survival rate. Thus, the researchers' question the validity of targeted procurement programs to make this type of government-dependent MBE competitive in the general business environment.

In another study, Bates (2002) questions whether WBEs face discrimination in the B2G marketplace. For example, does a female business owner have a creditability issue with government procurement officers? Bates (2002) investigated the following research question: Among firms of the same size and age that operate in the same industry, does the owner gender trait, by itself, increase or decrease the likelihood of selling to nontraditional clients? (p. 314) A key fact raised in this study is that women business owners are underrepresented in industry sectors that cater to government procurement, such as manufacturing and construction. As previously illustrated in Figure 2, the women-owned businesses are primarily in the service sector, such as health care and social assistance. Thus, it was not surprising for Bates to uncover in his regression analysis that the lack of WBEs in these industry sectors was a major drawback in terms of selling to the government and/or business. Overall, the researcher found that WBEs had less market access to selling to businesses (as opposed to governments) when compared to male-owned firms. Bates suggests that preferential procurement programs that target WBEs should increase sales to

the government and allow this type of firm to change its focus from B2B to B2G in order to overcome the credibility issues they face in the business environment.

2000 GAO Report on SBA 8(a) Program

In July 2000, the GAO issued a 124-page report, *Small Business: SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts* that gives a detailed analysis of this government-sponsored program. The GAO surveyed 1,200 firms from the SBA's database of 5,432 active 8(a) firms (as of 9/1999) to garner perceptions from these types of small businesses. First, the respondents revealed that the primary reasons for joining the SBA

8(a) program were to obtain 8(a) contracts (86%); broaden customer base to the federal government (80%); overcome barriers of discrimination (69%); increase net income (68%); improve chances of obtaining contracts outside of the 8(a) programs (48%); to make it easier to be awarded state and local contracts (39%); have access to training offered to 8(a) firms (34%); improve access to credit/financing (33%); and learn more about managing business (22%). An interesting finding of this report is presented in Table 4 since both minority and non-minority women strongly believed that the 8(a) program offered them an improved way to conquer discrimination.

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

Minority/Disadvantaged Group	Percentage
Minority Women	81
Nonminority Women	78
African American	78
Native American	64
Asian American	63
Hispanic American	58

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

The GAO also explored major reasons for whether the firms were satisfied or dissatisfied with the program and found mixed results in terms of the amount of 8(a) contract opportunities (56% satisfied; 24% dissatisfied), level of effort to find the right person at a federal agency to discuss potential 8(a) contracts (51% satisfied; 26% dissatisfied); amount of individual assistance SBA provides 8(a) firms (44% satisfied; 33%

dissatisfied); level of interest that federal agencies show for working with 8(a) firms (43% satisfied; 33% dissatisfied); number of opportunities to develop new lines of business (41% satisfied; 30% dissatisfied); amount of paperwork SBA requires (36% satisfied; 31% dissatisfied); and match between the training 8(a) program offers and what firm needs (31% satisfied; 26% dissatisfied) (p. 18). [Note: percentages are for anchor

responses only and will not add to 100%]. One of the GAO major conclusions (as the title of the report suggests) is that the SBA needs to refocus its efforts on assistance with obtaining contracts from the federal government, especially in terms of developing contacts at federal agencies and assisting firms with the contract negotiations.

Implications—So What?

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

Conclusion—The Need for Future Empirical Research

Based on the literature review conducted for this study, there is currently a lack of rigorous data analysis that either supports or refutes the success or failure of the programs

that target M/WBEs. We found a few regression analyses that were conducted using 2002 U.S. Census Bureau data. The recent empirical study of Mick and Greene (2004) using network theory and personal interviews with firms that had participated in either 8(a) or PTAC programs is an initial start to validate the effectiveness of these governments—led programs. We are concerned with the lack of B2G theory in the marketing and entrepreneurship literature--several of our search queries in traditional data sources, such as ABI Proquest Direct and Business Source Premier were unsuccessful—why is there a gap in academic studies in this area? Furthermore, a perusal of the few studies on M/WBEs raises further empirical questions, such as whether women (in 2008) still feel they lack the credibility to succeed in a B2G sales environment (see Brush 1992 for further research ideas on women entrepreneurs).

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

to measure (beyond actual procurement data) whether previous discrimination has actually been reduced or eliminated through these myriad of government programs?

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PATHWAYS TO FAILURE OF NEW VENTURES: A STUDY OF FAILED AND NON-FAILED INTERNET NEW VENTURES

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ABSTRACT

Building on past research on new venture failure this study asks: What are the pathways, or the sequences of decisions, actions, and events, to failure among Internet new ventures? And, how are they different from the pathways of non-failed Internet ventures? Four failed ventures were closely matched with non-failed Internet new ventures and their histories were compared. Results revealed that the pathways of failed ventures in contrast to those of their non-failed counterparts showed greater complexity, less orderliness in the pace of events, and a greater intensity in the level of activity.

INTRODUCTION

Prior to the market shakeout in year 2000, market value of Internet companies was estimated to exceed \$1 trillion (Barron's Online, March 20, 2000), and it fell to \$572 billion in December 2000 (Morgan Stanley, Dean Witter, 2000). Failure of new ventures in Internet space destroyed a significant portion of wealth and in a very short period of time. A majority of the ventures were newly minted public ventures, i.e., completed their initial public offerings (IPOs) within the last few years.

While cross-sectional analyses of large data point to several reasons for the failures, e.g., high levels of non-investment expenses and shift in investor sentiment toward using more conservative valuations, one question that persists is: What are the most frequent pathways, i.e., series of linked decisions, actions, and events, to failure of new Internet ventures? And, what are the differences in pathways, if any, between failed and non-failed Internet ventures?

In this paper, we will examine these and related questions by studying the case histories of several Internet ventures that have completed IPO during 1995-2000. The pathways to failure and their implications will be discussed in the paper.

BACKGROUND

Failure rates are generally high for new ventures: According to Timmons and Spinelli (2004), roughly one in five new ventures fail. Earlier studies of new venture failures show that two out of three new ventures die within seven years.

From a broader perspective, Stinchcombe (1965) indicated that the risk of failure of new ventures is extremely high due to the "liability of newness." New ventures require the development of new roles, standard social and operational routines for running the business, relationships with stakeholders (e.g., suppliers, buyers) in an effort to gain trust, and a dependable customer base to utilize its products or services. Since Stinchcombe's (1965) writing, multiple factors, some from the

external environment and some from international environment have been identified as causes of new venture failure.

With regard to external factors, Timmons (1999: pp.32) cites a Wall Street Journal report on new venture failures points that hostile economic and market conditions account for 47 per cent of failures of new ventures. Also, performance tends to be lower (Covin and Slevin, 1990; Kunkel, 1991; Miller and Dess, 1996) for ventures operating in the introductory stage of an industry.

With internal factors, new ventures are reported to have failed due to internal a lack of management skills, inappropriate strategy, poor vision, and poor management of capital (Zacharakis, Meyer, and DeCastro, 1999). According to Meyer and Dean (1993), when new ventures reach 'executive limits' of the entrepreneurial team, that is, when the top management team can no longer cope with the demands placed on the venture and the team members are not replaced, the ventures are likely to die.

It is generally acknowledged that failure is not an event; it is a process. Failure of firms, most notably relatively old firms, seems to follow a downward spiraling process. According to Hambrick and D'Aveni (1990), who studied the process by which relatively established firms end up in bankruptcy, the seeds of bankruptcy may be laid as far back as ten years prior to actual bankruptcy. Following a shock – environmental or internal shock, firm's slack is impacted and depletes the ability to withstand further shocks. The downward spiral may be set off by top management's misperceptions of events and erratic choices in adverse

conditions that then further speed the failure process.

A traditional approach to understanding new venture failure is to identify the relative importance of various factors associated with failure, and manage the risks appropriately. The assumption underlying this approach is that a few factors are deemed as pivotal to venture survival and that focusing on the factors would be fruitful. Also, these factors, acting independently, cause a new venture to fail. For example, Wilbon (2002) reported that enhancing core technology resources, e.g., R&D spending and recruiting executives with technology experience, early in the life of the venture raise the odds of survival of the venture after IPO.

An alternative perspective that we present in this paper is: a "combination" of factors causes failure. Process of failure is akin to the process by which accidents occur. According to Perrow (1999), failures are "normal" events. Cook and O'Connor (2005), in a review paper on "thinking about accidents and systems" reviewed several accidents in settings ranging from nuclear power plants, space agency, and hospitals. Cook and O'Connor's review and the stream of literature on accidents (Perrow, 1999) offer several useful leads for understanding new venture failures.

1. Though new ventures are formed with growth and value creation in view, a number of elements put in place, e.g., financing, corporate and business strategy, organizational structure, management systems and processes, in themselves may have "holes" or develop holes over time. The holes are

markers of impending failure of new venture.

2. The holes serve as latent conditions and “conspire” with other conditions, e.g., economic conditions, to result in a perfect failure. The latent conditions come to exist for a variety of reasons:

Executives in new Internet ventures often deal with new and emerging technologies and markets. In early stages of industry, it is rather difficult to see the holes and assess their potential impact. In early stages of industry evolution, e.g., Internet technology-based industries back in late 1990s, executives face the question: what might work in this industry? Therefore, executives tend to engage in experimentation to identify strategies that might work. It is often difficult to distinguish “holes” from strategies that might work.

As industry evolves, strategies that work become clearer but a different question comes to the front: what will work for my venture? And, strategies that worked for other ventures in the industry or a different industry might prove to be “holes” for certain ventures. Transition from private venture to public firm involves experimentation and selection of a winning strategy. But the presence of certain latent conditions, e.g., founding team characteristics, ownership structure, and alliances, technological resources, of the venture may render experimentation and

subsequent selection of strategy ineffectual.

New venture failure is often preceded by a series of events and responses on the part of the founding team to the events. Tracing the events along the way to failure of each new venture describes the pathway to failure. The differences, if any, between the pathways of the failed and the non-failed ventures would help entrepreneurs avoid the pathways to failure.

Transition from privately held venture to publicly held firm presents additional risks: At the juncture of IPO, there are risks associated with strategic initiatives that new public ventures initiate, e.g., acquisitions, mergers, and alliances, and strategic adaptations that new ventures attempt to undertake. New ventures contemplating IPO or ventures that have just completed IPO face rather unique challenges.

Successful transition of private ventures in to publicly held firms involves a series of restructurings (Bowman and Singh, 1993; Marten, 2003). Those include:

- Financial restructuring – it involves converting venture capital, private placement, preferred stock, debt, and other forms of financing in to publicly held stock
- Portfolio restructuring – it involves acquisitions, mergers, forming alliances, and selling-off certain business lines to sustain the growth and value of the venture
- Organization restructuring – it involves redesigning systems and processes so that venture strategies are executed effectively and efficiently

- Management restructuring – it involves restructuring the board of directors, top management team, changing the form of organization to reflect the restructured portfolio of businesses of the venture

Navigating these restructurings can be risky and can raise the odds of failure of the newly minted public ventures.

In this paper we will examine the following questions: What are the most frequent pathways that lead new ventures to fail? And, what are the differences, if any, between failed and non-failed ventures?

The Study Design

For the purposes of the study reported in this paper, we focused on Internet ventures. These are defined as ventures that use "...Internet technology in their business to re-form markets for known products and services as well as those that use the Internet to pursue breakthrough market opportunities" (adapted from Chaganti et. al, 2008).

Also, we defined failed ventures as ventures that exited their businesses and closed doors permanently. The exit might have occurred via bankruptcy or voluntary liquidation of business by selling some or all parts of their assets to meet financial obligations of the ventures.

Internet technology space is comprised of a wide array of ventures using a variety of business models – portals and search engines, at one end, and on-line banks, pharmacies and retailers, at the other end, and combinations of the two ends in between. Day, Fein, and Ruppertsberger (2003), in their study on shakeouts in digital markets, reported that odds of failure Internet ventures depend on the

business model of the Internet ventures. Accordingly, to identify the pathways of failed and non-failed new ventures, we followed the following steps in the study design:

Step 1. From a list of 227 new Internet ventures that were tracked by Pegasus Research International, an independent investment research firm, and reported by Willoughby in Barron's magazine (Willoughby, 2000), we identified 28 ventures that failed during 1995-2003. As mentioned earlier, failure meant that the business venture ceased to operate. For example, ventures acquired by another company were not included.

Step 2. Each failed venture identified in Step 1 above, was matched with a non-failed Internet venture by selecting the non-failed venture on two important yardsticks: 1) both failed and non-failed ventures had same business model, and 2) both types of ventures completed initial public offering (IPO) during the same calendar year. The ventures were matched on the year of IPO to ensure that the failed and non-failed ventures experienced similar economic conditions and financial markets during the IPO. But the non-failed venture was in existence by the end of 2003.

Business models have been distinguished on a number of dimensions, such as, where the business is located in the supply chain, the type of market on which it focuses, whether it sells directly on line, types of revenue sources, types of resources and assets used, and their cost structures (Applegate 2001; Applegate and Collura 2000). These dimensions are important contextual factors that influence venture performance and are likely to be similar among new

ventures that are based upon a similar business model. For matching the venture pairs on the business model, we followed the business model typology suggested by Applegate and Collura (2000). They identified four main business models: *commerce*, *content*, *community*, and *infrastructure*.

Commerce revenue is generated from the sale of physical products, license of information-based products (e.g. software), or service and transaction fees. *Content* revenue is realized from subscription and registration fees. *Community* revenue is collected from advertising activities, referral fees, and membership fees. *Infrastructure* revenue is generated from the sale (or license) of technology products, installation or integration fees, maintenance fees, hosting fees, and access fees.

A matched-pair design is an accepted method when examining why similar subjects have different outcomes (Schnatterly 2003). The design is favored in studies where confounding variables may have a very strong effect. It is particularly useful in contexts where the effects of a particular variable are difficult to untangle from other possible effects.

For each venture identified in Steps 1 and 2, we tracked the events – IPO-related events, portfolio-related events, organization-related events, and management-related events – that occurred and time line of the events. Data for the study were extracted from FACTIVA – a news archival source that continuously tracks news items and reports from major print media, including Wall Street Journal, New York Times. It includes archives of public and private ventures. For each failed venture, we tracked developments from the date on which

the venture announced its IPO to the date on which it declared its liquidation or bankruptcy. For each non-failed venture we tracked the events from the time of IPO to the three years (12 quarters) later. The grid used to trace the events in each venture is presented in Table 1.

While 28 Internet new ventures that completed IPO during 1995-2003 were liquidated by 2003, detailed news reports chronicling their histories have been very difficult to find. At the time writing of writing, we were able to complete collection and analyses of news ‘stories’ on three failed ventures in Step 1 and four pairs of failed and non-failed ventures in Step 2. Names of the ventures analyzed in this paper are listed in Table 2.

STUDY FINDINGS

Overall, the failed ventures that we examined were founded in 1995 and 1996, announced IPO around 1999, and completed multiple rounds of private funding prior to IPO. Since the announcement of IPO, failed ventures received awards and recognitions, formed alliances with technical, marketing and promotional partners, and made top management changes. According to the statements of the founders and the founding team members of the failed ventures, scale of operations is viewed as key to profitability.

Further, our examination of failed ventures suggests two specific behavioral markers:

1. Founders and founding team members expressed a strong sense of optimism and confidence in their business models and odds of their success. Here are a few examples of this sense of confidence:

Value America.com

"We're in here to change the world.
We're literally in business to change
the way people buy and sell
products."

"...Hire the best management talent
and driving revenues through its
innovative advertising campaigns.
The Company believes such
expenditures, as well as continued
growth in the breadth and depth of
brand name products sold in its
online store at Valueamerica.com,
are critical to achieving scale and
customer satisfaction."

Furniture.com

"Unlike a bunch of gear heads who may just put up a site that's technology or functionality-driven, ours is grounded in an understanding of why and how people buy furniture," he said. "Combined with our \$27 million in financing, this sends a strong message that we're here to weather the storm."

Garden.com

"We don't have serious competitors at this stage, and it's because of our supply chain. It's a virtual warehouse, and it's hard to build".

2. Another behavioral marker of failed ventures was: vacillation around the IPO decision. The series of events surrounding IPO in the three failed ventures, presented in Figure 1, show that there was back and forth on the decision to go public and its timing.

Pathways to failure

Turning to the pathways that distinguish failed and non-failed ventures, trace events that occurred in the failed and non-failed ventures over twelve consecutive quarters are presented in Figures 2 A and 2B

Based on an examination of the sequence of events, the pathway to failure of new ventures is as follows:

1. Complexity. Pathways of new ventures that failed included the complete suite of events – finance-related, organization-related, and portfolio-related events, followed by management-related events. In contrast to the above, pathways of the non-failed ventures were

relatively simple. They included primarily portfolio-related events and, to a lesser extent, organization-related events. As such, pathways of the failed ventures were more complex than the pathways of the non-failed ventures.

2. Pace of events. Along the pathways to failure entrepreneurs were engaged in a wide array. In contrast to the above, traffic on the pathways of the non-failing ventures was relatively light: entrepreneurs in the non-failing ventures were dealing with one set of events at a time, e.g., portfolio-related events followed by organization-related events.
3. Level of activity. Failed new ventures were engaged in relatively high number of events whereas non-failed ventures were engaged in relatively low number of events.

We are unable to make any comments on statistical significance of the differences between the pathways of the failed and the non-failed ventures, as the number of cases reported on in the paper is rather low.

Implications and Concluding Remarks

Going public involves a series of changes – finance-related, portfolio-related, organization-related, and management-related. Some of the changes may prepare the venture to successfully complete its IPO. Some other changes, notably the changes made after the IPO, may be aimed at maintaining or enhancing the performance of the new venture as a public entity. In this paper we focused on the changes that entrepreneurs make shortly after completing IPO.

Specifically, we explored the markers of failed ventures and differences between the pathways of failed and non-failed ventures.

Based on the case studies examined in the paper, we found two markers that distinguish the failed and the non-failed ventures:

1. Degree of optimism and confidence in the business model. The exaggerated sense of optimism as a marker of failed ventures is consistent with earlier research writings: Kahneman and Lavallo (1994), writing on timid choices and bold forecasts, suggest that entrepreneurs tend to have “cognitive blind spot” and overestimate their prospects based on their own ambitious plans rather than on their own or others’ past experience. A possible result of such exaggerated sense of optimism and self-confidence is that the founders and their ventures land in trouble. In a similar vein, Krueger and Dickson (1994), writing on the risks of “believing in ourselves”, showed that executives who are led to believe that they are “competent” tend to engage in risk behavior and vice versa. Awards and recognitions that the newly minted IPOs receive can contribute to the perverse effects.
2. Degree of hesitancy on the decision to go public and timing of the decision to go public. This finding was consistent with the Hambrick and D’Aveni’s (1988) findings that firms that are under stress, e.g., new ventures and ventures that

are about to go public, vacillate between action vs. no action, and even engage in certain initiatives that may be rather extreme. Such vacillation is a marker of stress and likely impending failure.

With respect to the pathways to failure, we found that pathways of failed ventures and non-failed ventures were different: pathways of the failed ventures were relatively complex, and both pace of events and level of activity along the pathways were relatively high. In contrast to the failed-ventures, the non-failed ventures seemed to maintain a very simple agenda, attend to one change at a time and keep the change activity level low.

What might explain the differences in the pathways of the failed and the non-failed ventures? One plausible explanation is: Entrepreneurs who are contemplating an IPO engage in a wide array of changes – finance-related, portfolio-related, organization-related, and management-related changes. However, in a rush to seize the opportunities presented by the capital markets and to be the first to go public the entrepreneurs may choose to just do the minimal preparation for an IPO event and hold-off on the other changes until after the IPO is completed. The pathways of failed ventures, compared to the pathways of the non-failed ventures, imply that failed ventures may have had more ‘unfinished’ business; or their preparations were still “in progress.”

Even with strategic changes initiated prior to the IPO event, entrepreneurs often find it necessary to engage in a series of post-IPO rounds

of changes for a variety of reasons: the changes made prior to IPO were not appropriate to the post-IPO situation or the changes were executed rather poorly.

Based on the case studies examined in this paper we cannot pinpoint as to whether the failed ventures were not ready in first place, i.e., the preparations were not complete, the initiatives were not appropriate, or the situation warranted a second round of initiatives.

Further, the array of events faced by the newly minted public ventures was rather risky: Relatively high complexity along the pathways gives entrepreneurs opportunities to engage in initiatives that would raise the odds of failure. The rapid pace of events along the pathways is relevant to the way entrepreneurs allocate their time and attention to the events. Managing a wide array of events in a concurrent fashion stresses entrepreneurs of the newly minted public ventures and seems to risk the very survival of the ventures. And, elevated level of activities along the pathways suggests that the ventures are under stress. As reported by Hambrick and D'Aveni (1988) firms that are under "stress" tend to launch many more initiatives than their counter parts that are under less stress. Again, the rapid pace of events that occurred among failed ventures suggests that hyperactivity comes at a cost.

One implication of these early findings seems to be that organizations that carry out pre-IPO scrutiny of new ventures need to be vigilant regarding the level of preparation among venture candidates. As we conduct additional collection of news reports on failed and non-failed new Internet ventures and complete the analysis, we hope to

verify these findings and arrive at conclusions that are generalizable to the larger population of failed vis a vis non-failed ventures.

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Table 1
The Grid Used to Trace the Events



Events & Decisions		Time Line		1	2	3	4	5	6	7	8	9	10	11
														
Financial	1													
	2	Cut Costs												
	3	Raise Capital												
	4	Raise other Finances												
	5													
	6													
Portfolio Related	1	Geo Diversification												
	2	Merger or Acquisition												
	3													
	4													
	5	International Diversification												
	6	R&D, Technology												
Organization Related	1	Structure												
	2	Systems												
	3													
	4	Alliances												
	5													
	6													
Management Related	1	New CEO												
	2	Top Management												
	3	Board of Directors												
	4	Ownership												
	5													
	6													

Table 1 (continued)
The Grid Used to Trace the Events

IPO & Outcome Related	1	Announce IPO												
	2	Delisted												
	3	Bought-out												
		Merged Out												
	4	Filed for Chapter 11												
	5	Filed for Chapter 7												

Table 2A: Three failed Ventures

1. Garden.com – B2C retailer of garden related information and merchandise
2. Furniture.com – B2C retailer of furniture-related information, advice, and merchandise
3. Value America.com – B2C retailer of computer related products, grew to electronics and general merchandise

Table 2B: Four Pairs of Failed and Non-failed Ventures
(Matched on Business Models and on the Calendar Year of IPO)

	Failed Venture	Matched non-failed Venture
1.	Applied Theory	BizLine
2.	Breakaway	Be Free
3.	Calico	Critical Path
4.	Acclaim	Backweb

Figure 1: Vacillation Surrounding the IPO Event

Failed Venture – Furniture.com

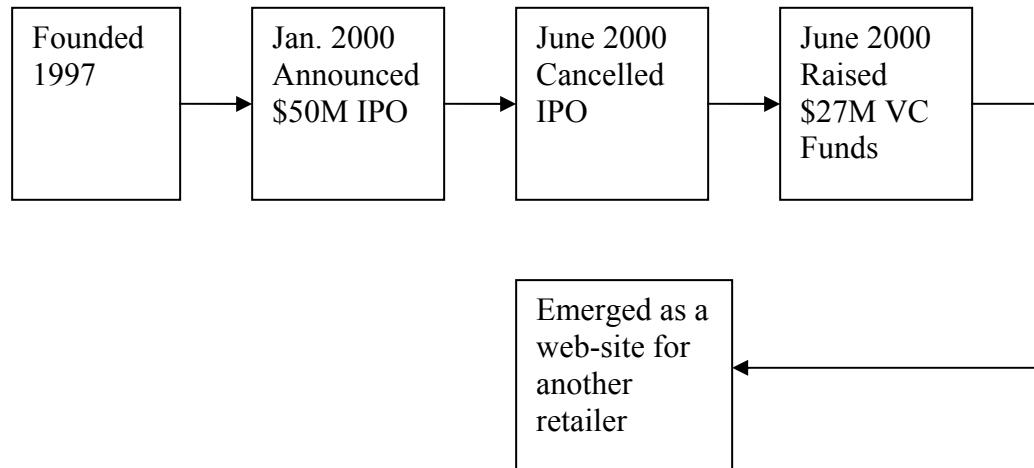
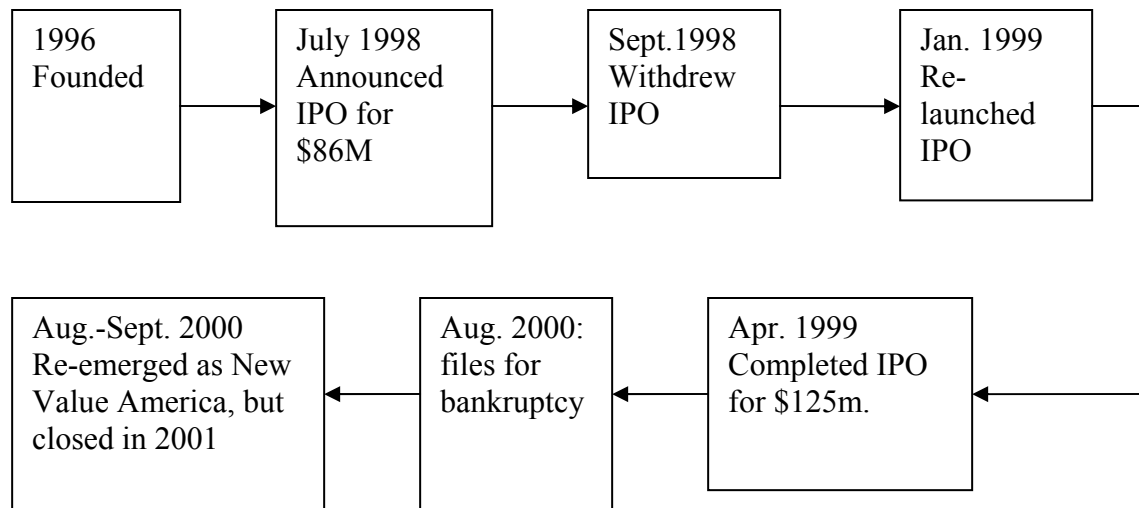


Figure 1: continued

Failed Venture – Value America.com



Failed Venture – Garden.com

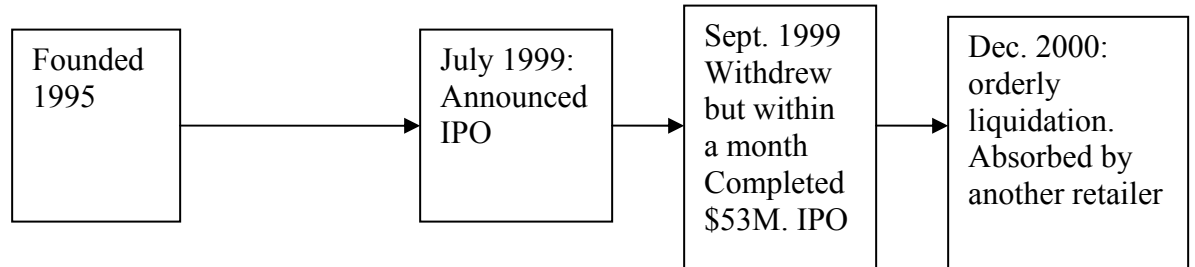


Figure 2A
Number and Types of Events that Occurred in Failed Ventures
Over Twelve Consecutive Quarters

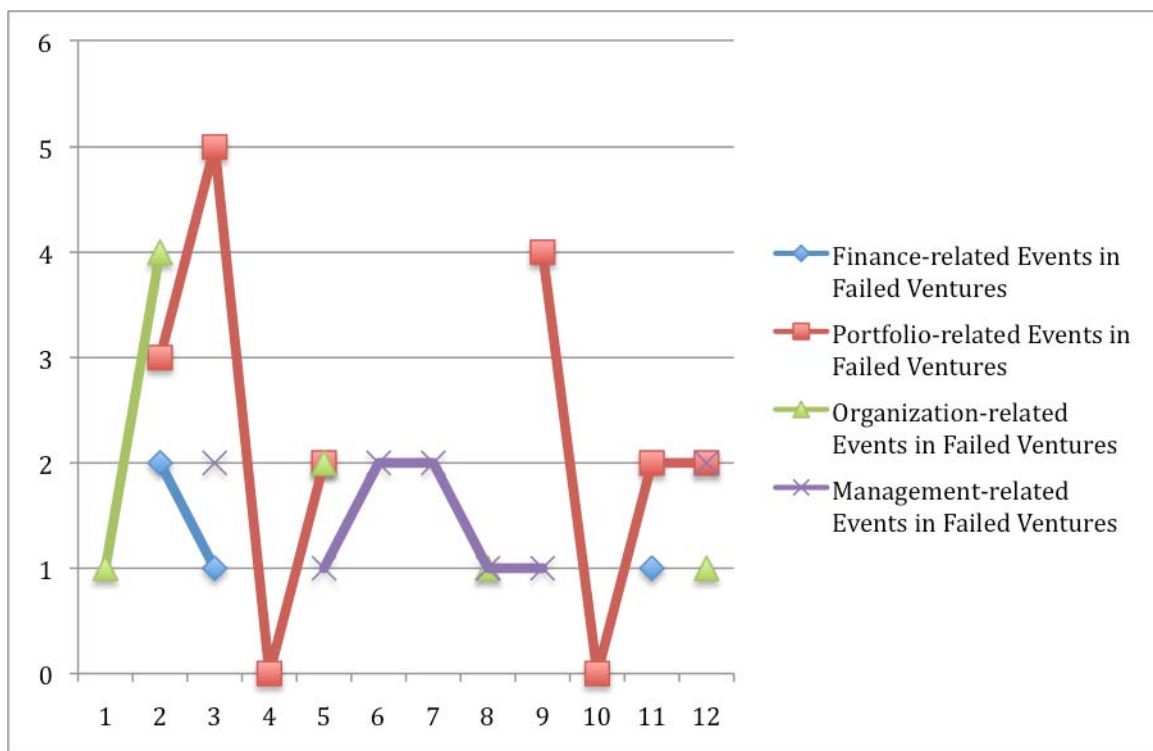
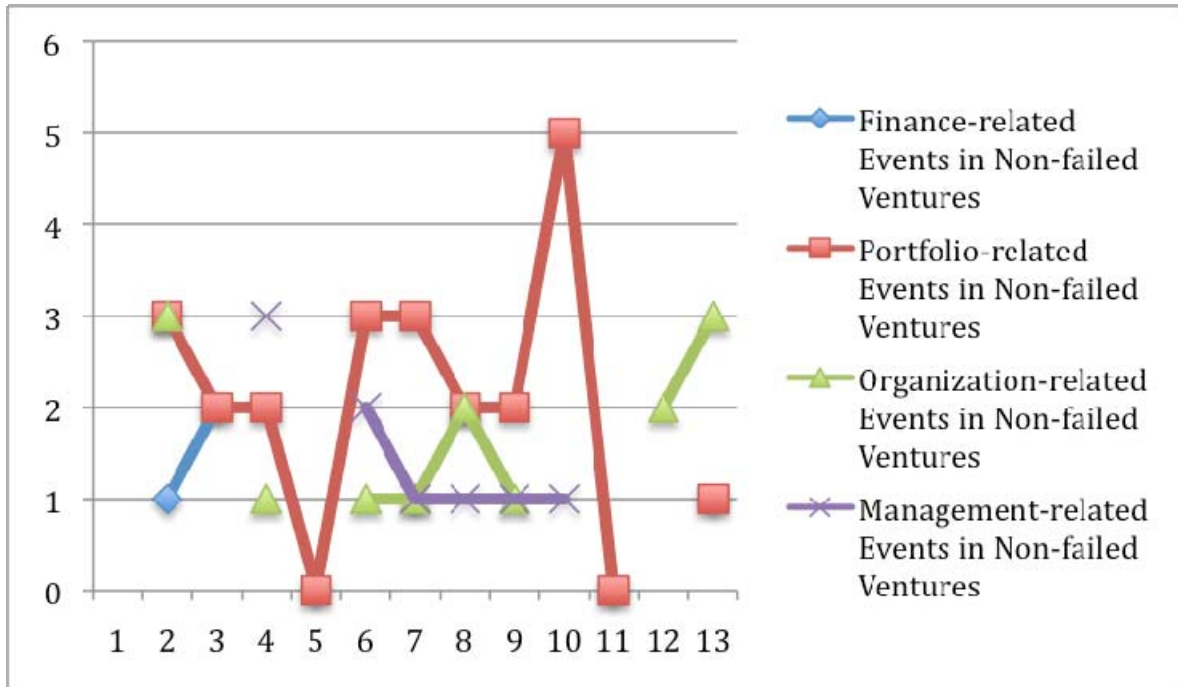


Figure 2B
Number and Types of Events that Occurred in Non-Failed Ventures
Over Twelve Consecutive Quarters



STRATEGY-SHAPING FACTORS IN THE VENTURE CAPITALIST INDUSTRY

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ABSTRACT

Prior research has shown that VCs may differ in a variety of ways, for instance, in their choice of venture stage and industry. However, it has not posed two key questions regarding VC strategy: do VCs have a business-level strategy that allows them to gain a competitive advantage and do VCs have a corporate-level strategy that affects the scope of their portfolio and suggests a distinct approach toward its management? In this paper I argue based on the findings of my two studies – a series of interviews with over fifty VCs and a qualitative examination of VCs' published interviews - that VCs may significantly differ both in their business and corporate strategy.

Venture capitalists (VCs) raise funds from private and institutional investors and use the amassed capital to take equity positions in small, nascent companies. In the U.S., venture capital in the described sense is contrasted to private equity – providing capital to established companies that may need to change their strategy or ownership structure (for instance, to go back private). In Europe, the distinction between venture capital as funding of new ventures and private equity as funding of established companies is blurred, and the same term “private equity” is employed for identifying both types of financing (Wright & Robbie, 1997). Within venture capital in a narrower sense accepted in the U.S. there are still considerable differences between early-stage investors and late-stage investors. While both of them fund new ventures, discrepancies between the two types of financing are significant. Early-stage investors provide the so called seed money to startups that have little to prove their viability. It is typically a

group of enthusiastic colleagues willing to dedicate a concerted effort to creating a new enterprise. In contrast, late-stage investors offer additional funding to ventures that already have obtained some evidence of their ability to commercialize the original ideas (that may have undergone at that juncture a radical transformation). These companies typically have actual cash flows and may already be profitable.

Thus, following the fundamental distinction between VC and private equity, the preferred stage of investment may represent the second criterion that allows placing VCs into distinct strategic groups within the VC industry. In addition to stage, VC strategizing may be affected by choices of industry, location and also by disparate approaches toward the scope of enterprise. In other words, VCs may vary both in terms of their business-level strategy (choice of portfolio companies' preferred stage) and in terms of their corporate-level strategy (choice of portfolio companies'

industry and geographic location, that is, scope). Intriguingly, few studies have examined the differences among VC firms with regard to these two principal strategy types. My paper aspires to fill this gap and in so doing provide a contribution to the literature with regard to VCs' principal approaches toward strategy, both business-level strategy and corporate-level strategy.

The study proceeds as follows. In section 1, I review the extant literature on VC strategy, and summarize the main strategy-shaping factors identified in different studies. In section 2, I apply the same procedure to my own sample that consists of fifty VCs operating in various areas of the U.S. In section 3, I compare strategy-shaping factors identified in both sources, and put forth hypotheses about the main types of VC strategy. In section 4, I report the results of a study of VCs' published interviews, and examine whether these VC firms differ from each other with regard to the posited strategy types. In Conclusion, I discuss this study's principal findings, and examine their implications both for the existing and future research on venture capital and entrepreneurship.

Factors Shaping VC Strategy Identified in the Extant Literature

The existing literature on VC strategy is scarce. The reasons for such dearth of research on VC strategy are seemingly that while VCs may occasionally comment on strategic issues (Gupta, 2005) and a few researchers have examined the subject (Robinson, 1987; King, 2008), we do not actually have a theory (or even a suitable taxonomy) explaining differences in VC strategizing.

Furthermore, we do not know whether more generic classifications of strategy types, for instance, Snow and Mile's (1968) identification of key strategic postures - prospectors, analyzers, defenders and reactors - or Porter's (1980) distinction between cost leadership, differentiation and focus as the three generic strategies and his emphasis on consistency (similar to "reactors," inconsistent firms tend to get "stuck in the middle") are applicable to VCs' strategizing.

(Insert Table 1 about here)

Table 1 extracts the principal factors that according to prior research on the subject provide a rationale why VCs may differ in their strategies. For example, many authors have argued that VCs' strategies could vary depending on investment stage preference (Tyebjee & Bruno, 1985; Sapienza, 1992). Curiously, research has failed to demonstrate that early-stage investors are substantially different from late-stage investors in terms of the criteria they apply for assessing whether or not to offer financing to a venture (Elango, Fried, Hisrich, Polonchek, 1995). The second factor that, according to some studies, could account for the differences in VCs' investment strategies is the source of funding (Tyebjee & Bruno, 1985; Robinson, 1987). Thus, VCs may invest their own money or target private investors and institutions for capital while some may use a combination of their own and other investors' funds. The third factor is the size of a VC firm that may be reflected in capital under management and the number of employees including senior partners, junior partners and staff (Robinson, 1985; Wasserman, 2008).

The fourth factor defines the minimum (or maximum) investment satisfactory to a VC firm (Robinson, 1987).

The fifth factor suggested in previous research has to do with the investment area (Bygrave, Timmons, & Fastm, 1984). For instance, some VCs may prefer to invest only in high-technology ventures whereas others may specialize in consumer goods. Within each broad investment area further distinctions can be drawn based on industry and industry segment VCs might choose for funding. Some VCs may opt for biology and medicine. Others may prefer semiconductors, the Internet or communications. The sixth factor relates to the propensity for syndication or collaboration with other VCs in financing a venture. While some VCs syndicate the majority of their deals, others may keep to themselves and act as lone wolves rather than hunt in packs (Tyebjee & Bruno, 1985). The seventh factor is degree of involvement with the venture. McMillan, Kulow, & Khoylian (1988) divided VCs into close trackers heavily engaged in all the aspects of their portfolio companies' operations; laissez-faire VCs who do not get involved at all in ventures' operations and the moderates who get involved but not as much as close trackers do. Along with involvement, McMillan et al. (1988) have discussed VCs' familiarity with venture operations as the factor that may have an impact on VCs' strategy. For instance, McMillan et al. (1988) have argued that close trackers' involvement was based on their knowhow about running a venture while laissez faire VCs' lack of sufficient experience and expertise at supervising portfolio companies lead to providing assistance by putting in place

special external support networks.

The eighth factor proposed by Florida and Kenney (1988a; 1988b) is the geographic-industrial complex, such as Silicon Valley (with its prevailing technology orientation) vs. New York (with its prevailing finance orientation) or Boston, Texas and Minnesota (combining both orientations). The ninth factor is leadership in VC syndicates (Gorman & Sahlman, 1989). Some VCs may prefer to play a leadership role (act as the lead investor more frequently) especially by putting together VC syndicates whereas others may prefer to join syndicates created by other VCs. The tenth factor is type of assistance provided to portfolio companies (Gorman & Sahlman, 1989). For instance, some VCs may choose to contribute more to management recruitment or strategy formulation whereas others could be more interested in providing operational assistance or help in networking. The eleventh factor is diversification vs. specialization (Norton & Tenenbaum, 1992). Gompers, Kovner, & Scharfstein (2006) have provided evidence that focused specialized VC firms characteristically outperform generalist VC firms

The twelfth factor relates to VCs' risk/profit orientation. McMillan, Siegel and SubbaNarimha (1985) divided VC firms into "purposeful risk managers" actively diversifying their portfolios, "determined eclectics" that invest in opportunity rather than following a plan, and "parachutists" seeking to avoid downside risk (bailing out at the first sign of trouble). Other scholars also emphasized the importance of risk strategy as a factor

that allows differentiating among several groups of VCs (Fried & Hisrich, 1991; Ruhnka & Young, 1991; Muzyka, Birley, Leleux, 1996; Engel, 2004). The thirteenth factor is time horizon (Wasserman, 2008). Depending on the time span of their funds (or the stage in their lifecycle), VCs may or may not be willing to invest in a venture as they may become more and more concerned about their exit opportunities in the future. The fourteenth factor is VC firm structure. VC firms with hierarchical structures tend to make different strategic decisions compared to VC firms with flatter organizational structures (Wasserman, 2008). Finally, the fifteenth factor is venture strategy (Sapienza, 1992). Some VCs may be attracted to innovative ventures whereas other VCs may prefer to invest in those ventures that follow established business models and act as talented imitators.

(Insert Figure 1 about here)

Figure 1 summarizes the fifteen factors established in prior research that may influence VCs' strategies.

First Study: Sample and Methods

I have interviewed 50 VCs from different areas of the U.S. The majority of the interviewed VCs, however, are located either in the Mid-Atlantic States (Maryland, Washington, DC, Pennsylvania and Delaware) or in the Bay area of California. VC firms in the sample range from startups to large, established firms with international reputation. The respondents were asked whether venture capitalist firms employ a unique strategy that differentiates them from other venture capitalist firms. I used the same method as for

analyzing prior research on VC strategy. That is, I initially identified all the factors that shape VC strategy discussed by each informant. Consequently, I summarized all the factors mentioned by all of them as a group. Table 4 below provides a summary of the most important factors identified by the respondents.

(Insert Figure 2 about here)

FINDINGS

Naturally, there was a significant overlap between strategy-shaping factors described in prior research (similarly based on interviews and surveys of venture capitalists) and strategy-shaping factors identified in the present study. However, there were also some important and telltale differences. Table 2 below outlines both the commonalities (overlaps) and established divergences.

(Insert Table 2 about here)

First, the respondents in my study emphasized the imprint of VC background and/or initial success on subsequent strategy choices. For instance, VCs with a background in finance (investment) and VCs that have amassed their wealth by launching ventures could differ in their strategies. Also, the initial strategy chosen by a new VC firm could be replicated in case of success. Second, the respondents discussed the importance of VCs' clarity of vision and mission as strategy-shaping factors. According to them, some VCs are capable of clearly articulating their strategies which affects their subsequent differentiation efforts. In contrast, other VCs' statements may be fuzzy and fail to guide the firms toward implementing a consistent strategy. Third, the

respondents proposed that some VC firms may be more focused on venture selection (“the venture pickers”) whereas other VCs may be more focused on strategy execution (“the implementers”).

The fourth factor can be defined as the East Coast – West Coast dichotomy. A number of VCs from the East Coast have argued that West Coast VCs offer ventures higher valuations but also request a more powerful vantage point in their relationship with ventures’ senior management. Hence, the fifth factor relates to VCs’ position with regard to founder (CEO) replacement and change of venture direction: some VCs appear to assume a more forceful position having little doubt that the replacement of senior management or an overhaul of a venture’s strategy could be helpful when a venture is facing problems and hurdles. In contrast, other VCs may be hesitant in implementing such drastic measures and have doubts as to their efficacy.

The sixth factor discussed by the respondents is strategic orientation. A number of interviewed VCs argued that VCs may act either as investors or as “company builders.” VCs may also emphasize different functional areas in strategy implementation (the seventh factor): for instance, some VCs may be focused on distribution channels whereas others may believe that distribution channels are less important. In addition, the respondents discussed variation in VCs’ strategy execution (the eighth factor) arguing that some VCs pursue a systematic approach whereas other VCs may act in a more haphazard and opportunistic way. The ninth factor pointed out by the respondents relates to VC firms’

procedures of establishing consensus. While some VCs may use a democratic process, and seek to provide each partner with sufficient autonomy, others employ a centralized style of leadership and are dominated by the senior partner or partners. Finally, the tenth factor refers to VC firms’ ownership requirements with some VC firms demanding a higher percentage of venture ownership than other VCs as a precondition for their funding. The next section will bank on the findings unveiled in prior research and the results of the present study to develop a theory explaining the main directions of VC firms’ strategizing.

How Do VC Firms Differ in Their Strategies?

Similar to law firms and accounting companies, VCs can be seen as professional services firms or PCFs (Wasserman, 2008). They assist two types of customers – investors and ventures. VCs typically act as brokers or intermediaries toward private and institutional investors whose capital they invest. They play, however, various roles with regard to ventures. Thus, Perry (1988) suggested based on three in-depth case studies that VCs may play three main roles associated with the roles played by founders. Specifically, founders-inventors seek VCs-investors; founders-builders seek VCs-advisors and founders-innovators seek VCs-partners (Perry, 1988). Other authors have identified a larger repertory of functional roles that VCs may play toward founders, such as financiers, business contacts, industry contacts, management recruiters, business advisors, sounding boards, coaches/mentors, and friends/confidants (Sapienza &

Timmons, 1992; Sapienza, 1995). These functional roles, however, describe specific types of actions that can be performed by all VCs whatever their structural roles may be. Thus, any VC will provide capital (act as a financier), and many VCs could also act as business contacts or recruiters.

VCs, however, may choose to emphasize some of these functional roles while deemphasizing functional roles depending on their preferred structural roles. It is possible, that, similar to founders who can identify themselves as inventors, builders or innovators (Perry, 1988), VCs may also identify themselves with one of the key roles (while downplaying or even rejecting others). What are those key roles and how do they affect VCs' strategic behavior? It appears that some VCs may prefer to act as investors-controllers and seek to increase or decrease their ownership share depending on the changing risk/payoff configuration faced by the venture while also making sure that founders do not jeopardize their investment by getting involved in rash or opportunistic activities. Other VCs may view themselves as coaches/designers and teach ventures how to achieve business success seeking to create new, viable companies. Finally, some VCs may emphasize their role as technical experts and consultants as they focus on particular industry sectors, get heavily involved in operations and let ventures benefit from their amassed expertise.

The differences among the respective strategies of risk-reward optimization (investors-controllers); instruction and partnership (coaches-designers) and expertise-based assistance (experts-consultants) could

be quite dramatic. Thus, the first strategy of risk-reward optimization would involve expediently abandoning those ventures that face increased risk (or decreased rewards) compared to the initial situation when VCs had first decided to invest or quickly changing management and developing a new strategy for the venture at the first sign of potential trouble. The second strategy of rigorous instruction and long-term commitment would involve providing a venture with a plethora of services and bringing in additional investors who could assist the venture in some specific areas or at least help it to stem the tide and stay afloat. The third strategy could entail continual analysis of a venture's operations and search for an exit strategy (such as an acquisition by an established company) that would allow a venture to maximize its potential of creating a new technology or exploiting a new business model. Finally, a fourth possible strategy could be to balance all the three roles. That would involve exercising self-control and limiting some functions to strengthen others. For instance, VCs that choose a balanced strategy may decide not to expand their ownership share even when it is feasible and advantageous for them because that could undermine their other roles – of coaching and consulting. A balanced strategy might also require treating control of portfolio companies as an important but not the most important and dominant aspect of their relationship. Finally, a balanced strategy could entail a refusal to provide excessive assistance to ventures because such an extreme operational involvement might weaken their implementation of other roles. To summarize:

Hypothesis 1: VCs' may choose

to act as investors-controllers, as coaches-designers or as experts-consultants or balance these roles – and hence perform a different set of functions and strategies.

The structure of an organization (Chandler, 1985) including professional service firms (Wasserman, 2008) may shape its strategy.

Wasserman (2008) has recently demonstrated that VC firms' strategies can influence their structure.

Specifically, VCs specializing in early-stage investments typically rely more on their intuition (the gut feeling) and refuse to delegate their responsibilities to junior associates. Consequently, such firms with insightful leaders typically choose upside-down pyramidal structures in which the principal or general partner ends up doing most of the work. In contrast, late-stage investors face an enormous amount of information that can be parceled out and delegated to junior associates. As a result, such firms typically choose a pyramidal structure – junior associates perform less important functions and the principals make decisions.

While Wasserman's (2008) study examines the division of labor between principals and agents (junior associates), another important division of labor to consider is that among principals or general partners. Some VC firms may embrace a more centralized pattern of decision making with the top partner ultimately assuming responsibility for all the important decisions. In other VC firms, the decision making responsibility is shared and delegated. Furthermore, such VC firms may develop specific democratic procedures. Similar to some medieval parliaments, each member

may possess the power of veto by effectively barring colleagues from making decisions they may consider to be too risky and potentially damaging to the firm. As result, a firm's structure may influence its strategy. Highly centralized firms are likely to embrace a consistent strategy with the top person continually developing the plan of action and avoiding those new initiatives that may not appear to be in sync with the grand plan. Highly democratic firms are likely to be more experimental since each partner might prevail in persuading the rest of the firm that it could make sense to try a different path. Finally, those firms that allow each of its members to use its veto power could be more risk-averse than other VC firms. While demonstrating the impact of interfirm cooperation on choice of strategy is not the objective of this study, it is important to point out that VC firms may strikingly differ in terms of their cooperation, delegation and consensus building. Thus, some VC firms may endorse a more centralized and less cooperative structure dominated by senior partner or partners. Such orientation could influence their investment style by moving it toward greater unity and homogeneity. In contrast, other VC firms may endorse a less centralized, more cooperative structure that could also influence their investment style that might be characterized by intended heterogeneity. To summarize:

Hypothesis 2: Some VC firms may adopt a more centralized and less cooperative structure and respectively emphasize the homogeneity of their strategy while other VC firms may adopt a less centralized and more democratic and cooperative structure

and stress the heterogeneity of their strategy.

The differences in VCs' strategies I have discussed above predominantly refer to business-level strategies. Thus, VCs may seek to win over other VC firms in their industry sector by emphasizing some of the three roles and thus developing superior capabilities in performing them or effectively balancing all the roles (and developing a superior capability in terms of achieving an optimal balance). VCs may also link their core competencies to the special talents of their leaders (for instance, in identifying most promising ventures). Respectively, they can put in place an inverse pyramidal structure that concentrates most job duties in the hands of the figurehead. Such choice of structure, in turn, may limit VC firms' openness to embracing new initiatives but make them more consistent and capable of reproducing previous successes. Other VC firms may rather put their faith in the varying capabilities of numerous partners and provide each of them leeway in pursuing their favorite project granted other partners' approval. Such structural choice may encourage search activities but expose a VC firm to greater firm-specific risks.

In addition to business-level strategy, VCs can also utilize a corporate strategy by choosing to position themselves in various industries and industry sectors as well as in various geographic areas. Thus, some VC firms prefer to operate locally. Other VC firms may operate within several major areas and some VC firms may choose an international orientation. VCs may also focus on several industries or

embrace a whole variety of promising industries and industry segments. To summarize:

Hypothesis 3a: VC firms' corporate-level strategy may differ in geographical and industry (sector) scope: while some VCs may prefer to operate within their own region other VCs may prefer to operate in numerous geographical areas including foreign investments; while some VCs may adopt a narrow industry (sector) focus, other VCs may prefer to a broader industry (sector) scope.

Furthermore, VCs may choose opposite approaches toward managing their portfolio of companies. Thus, some VCs may prefer bilateral relationships and monopolize the process of interaction with their ventures treating each of them as an autonomous, self-sufficient entity. In contrast, other VCs may seek to create synergies among their different ventures and even use this approach in building their portfolio of investments so that each company in the resulting network could benefit not only from the value-added services provided by VCs but also from network-wide collaboration including processes of mutual learning, assistance and sharing of ideas among ventures. To summarize:

Hypothesis 3b: Some VC firms may prefer bilateral relationships with their portfolio companies treating each of them as a self-sufficient, autonomous entity while other VCs may prefer to build multilateral relationships within their portfolio of ventures and aspire to create synergistic effects.

(Insert Figure 3 about here)

Figure 4 summarizes the main strategy-shaping factors uncovered in prior research and relates them to the three main directions of VC firms' strategizing: (1) VC firm's preferred roles and types of assistance to ventures; (2) VC firm's collaboration and investment style; and (3) VC firm's scope and management of portfolio companies' cooperation and mutual learning. Two of these three "buckets" (roles and delegation) relate to VC firms' business-level strategy. The third "bucket" relates to VC firms' corporate-level strategy. The next section will test the proposed hypotheses empirically by analyzing whether VCs' descriptions of their firms' strategy are structured around the three suggested directions and thus confirm or refute the inferred differences.

SECOND STUDY

For the purposes of conducting a second study, I have analyzed two books containing detailed interviews with venture capitalists from well-known, flagship firms in the VC industry. Both books were published in 2000, at the end of the dot.com era but before the beginning of its collapse. The first book, *Venture Capitalists: Inside the High Stakes and Fast Moving World of Venture Capital* contains interviews with 14 VCs. The second book, *Done Deals: Venture Capitalists Tell Their Stories* contains interviews with 32 VCs. Overall, I have analyzed 46 interviews. All the interviews in the first book provided material regarding VC firms' strategizing. Only about half of the interviews in the second book could be analyzed along these lines due to a more historic nature of the publication dedicated to VCs' memoirs about their

careers.

I have employed the following method of scrutinizing VCs' stories. First, I identified the parts of the text in which VCs discussed their firms' investment philosophies and what makes them different from other VCs. Second, I identified the parts of the text related to VC firm's governance. Specifically, I was looking for any indications that partners in a VC firm may not always agree with each other, and whether such partners may retain some independence and influence venture selection (even if other partners may not endorse the same prospect to the same degree). Respectively, I contrasted what I called "the language of unity," that is, a continual emphasis on the uniformity of a VC firm's investment decisions and practices and "the language of collaboration," that is, a continual emphasis on partners' ability to influence venture selection and strategy execution processes by articulating their own approaches, perspectives and philosophies. Third, I identified the parts of the text related to VCs' methods of portfolio building. In this area, I was primarily interested in whether VCs expressed an inclination to go beyond their home base by entering other geographic areas and enter a broad cross-section of industries or rather emphasized their focus – in terms of both geography and industry (segment) selection. I also analyzed whether VCs induced portfolio company collaboration and mutual learning and in this way sought to attempt some synergies through their portfolio selection and venture networking or rather viewed each business as self-sufficient and did not urge venture networking.

(Insert Table 3 about here)

Table 3 provides evidence that VCs actually define their strategy in terms of the hypothesized key roles (investor-controller – coach-designer – expert-consultant). For instance, a number of VCs argued that they are primarily investors (and not coaches) or that they are primarily coaches (and not investors) or that they are primarily experts-consultants (not investors). The interviews also support the hypothesis that VC firms are different in terms of their attitudes toward partner equality and independence. Some VCs emphasized the uniformity of practices within the firm and their attempts to organize a unified group of like-minded individuals. Others pointed out their emphasis on partner equality and democratic processes of decision making. Respectively, some firms presented their decision making as homogeneous whereas other described it as heterogeneous. VCs were also distinct in their approach toward the scope of the firm and its geographical boundaries. Some clearly preferred a broad approach toward operating in a number of industries and/or geographic areas whereas others opted for a narrower (and focused) approach. Finally, VCs could not be more different in terms of their attitudes toward networking among the portfolio companies. Some VCs encouraged networking. They claimed that venture collaboration allows achieving synergistic results through mutual learning. Others preferred each venture stick to its own knitting and adopt a more autonomous orientation.

Twenty interviews in Table 3 represent apparently diverse approaches. For instance, Sequoia Capital (Michael

Morris) espouses an investor-controller orientation. It emphasizes its right to replace management, and/or change a venture's strategy in order to maximize its own financial rewards. Sequoia is broadly focused and will enter any promising market. At the same time it makes no effort to induce collaboration within its firm portfolio and prefers ventures to focus on their own business rather than to collaborate and share ideas with other firms it is financing. Sequoia also insists on a very homogeneous and unchanging investment style. I propose that Sequoia consistently acts as the principal while essentially viewing ventures as agents (Jensen & Meckling, 1976).

In contrast, Benchmark Capital positions itself as a coach-designer. Benchmark believes that its main role is to service portfolio companies by helping them shape up their strategies. Furthermore, Benchmark views its partners as equals and does not insist on too much unity and centralized command that lead to the development of a homogeneous investment style. Instead, Benchmark allows each partner to influence the firm's strategies provided they can convince other partners that the new path appears to be promising (Stross, 2000). Furthermore, the firm actively encourages portfolio companies to collaborate with each other and generously share ideas. It also endorses a broad scope. As a result, Benchmark Capital can be viewed as a collaborator since its core value lies in inducing active discussions and equal partnership within the firm and cooperation among portfolio companies forming a network of mutual learning and assistance.

Novak Biddle Venture Partners represents a different approach compared to both Sequoia and Benchmark as the VC firm defines its main goal as providing technical assistance to ventures. It wants each of the portfolio companies to concentrate on their own business instead of wasting time on collaboration with peers. Novak Biddle Venture Partners also stresses the homogeneity of its approach and their aversion toward the investor-controller orientation. Instead, the firm seeks to motivate senior management of portfolio companies by letting it retain a high percentage of ownership. The company endorses a narrow orientation by focusing on the technology sector. Thus, Novak Biddle Venture Partners overlaps with Sequoia in terms of style uniformity and venture self-sufficiency (as opposed to collaboration). It is different from Sequoia in terms of preferred roles and functions. At the same time, Novak Biddle Venture Partners overlaps with Benchmark in terms of being actively involved with portfolio companies and eschewing ownership orientation. It is different from Benchmark in terms of scope and venture collaboration. Consequently, I suggest that Novak Biddle Venture Partners practices a distinct type of strategy. It can be viewed as a specialist that values individual autonomy and ownership orientation on the part of financed ventures but eschews investment orientation and also shuns heterogeneity.

Finally, New Enterprise Associates (NEA) appears to espouse a different approach toward strategy. NEA emphasizes its active role in recruiting management and changing companies' strategy (similar to principals like

Sequoia). However, the firm is also a believer in venture collaboration and is inducing portfolio companies to share expertise and exchange ideas (similar to collaborators like Benchmark). NEA emphasizes partner equality but instead of providing an opportunity for endorsing many different directions emphasizes the commonality of partner background and their uniform approach toward decision making due to the fact that they are all former operatives who can provide concrete technical and management advice to their ventures. Hence, NEA can be described as a balancer that endorses ownership orientation, collaboration orientation and specialization orientation and brings them together in a balanced manner.

(Insert Figure 4 about here)

Figure 4 exhibits a matrix that positions the four key strategic types I have identified among VC firms along the two axes. The horizontal axis measures ownership orientation. It contrasts firms with a weak ownership orientation (collaborators and specialists) and firms with a strong ownership orientation (balancers and principals). The vertical axis measures interfirm collaboration and venture networking orientation. It contrasts firms that prefer a homogeneous approach toward decision making and do not place a high value on venture networking (specialists and principals) and firms that emphasize homogeneity and interfirm collaboration as well as urge ventures toward networking and engaging in mutual learning through experience sharing.

CONCLUSION

The extant literature on factors that affect VCs' strategies has enriched our

understanding of how VCs actually operate. However, it has not really answered two key questions regarding VC strategy. The first question is whether VCs have a business strategy or competitive strategy that allows them to achieve a competitive advantage in battles with rivals operating in the same industry (or segment). The second question is whether VCs have a corporate strategy, that is, whether VCs shape the scope of the firm and choose how to manage its constituent business units.

Based on my interviews with fifty VCs focused on VC strategy, I have put forth three hypotheses with regard to the main roles VCs may choose to play toward their portfolio companies (investor-controller, coach-designer and expert-consultant); the main attitudes VCs may adopt toward interfirm governance and coordination resulting in preferences for homogeneity vs. heterogeneity; VCs' choices of industry and geographical scope (broad vs. narrow) and VCs' contrary positions regarding portfolio companies' collaboration: urging autonomy vs. synergy. My second study based on analysis of VCs' published interviews has provided evidence that VCs' strategies differ in these respects. I conclude that strategic differences among VCs may be presented along the axis of ownership (from weak to strong ownership orientation) and along the axis of interfirm and venture collaboration (from weak to strong).

IMPLICATIONS

The suggested typology of VCs' strategic types could be useful for both VCs as they make their strategic choices and for entrepreneurs trying to

find a good fit with a VC firm or VC firms. Thus, VCs may compare the costs and benefits, merits and shortcomings of each strategic position and possibly emphasize (deemphasize) some previously overlooked (overstressed) orientations. Entrepreneurs may try to decide whether they want to work with a VC firm that will give them more individual attention or rather manage the process of mutual collaboration in its network of portfolio companies; whether they want help from a coach-designer, investor-controller or expert-consultant or in fact prefer a good balance of all of these principal roles and functions.

Future research may use the suggested taxonomy and analyze its fit with a multitude of VC firms' strategies. It is possible that the four strategic types I have identified could also be found in other professional service firms, partnerships, and even corporations, both small and large. Essentially, all businesses could differ in performing such vital functions as investment, control and supervision, interfirm collaboration, coordination and delegation and business units' cooperation.

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References are available but have been left out with the permission of the conference chair.

TABLES AND FIGURES

Table 1. Research on VCs' strategy.

Study	First Criterion	Second Criterion	Third Criterion	Fourth Criterion	Fifth Criterion
Bygrave, Timmons, & Fast, 1984	Stage (early vs. late), amount of investment, firm size, type of investor	Technology (high vs. low)	Syndication (number of co-investors)	Outreach efforts" "bridging and coalition building	Sharing risk and information with other VCs
Tyebjee & Bruno, 1985	Stage (early vs. late)	Lone Players vs. Syndicates	Investment area: high technology vs. consumer goods	Source of funds	
Robinson (1987)	Financial resources: where VC firms get funding	Staff resources: degree of assistance to portfolio companies	Venture stages: interest in financing a venture at a certain stage	Use of financial resources: differences in the size of a minimum investment	Role: Direct investor vs. broker for institutional funds
McMillan, Siegel, & SubbaNarasimha, 1985	Risk minimization through diversification ("purposeful risk managers")	Opportunism and broad focus ("determined eclectics")	Downside risk avoidance ("parachutists"): abandon at the first sign of trouble		
McMillan, Kulow, & Khojlian, 1988	Involvement with the venture (from close trackers to laissez-faire VCs)	Familiarity with the VC business as supervision	Creation of external networks for assistance to ventures		
Florida & Kenney, 1988a; 1988b)	Technology-oriented complexes: Silicon Valley: Invest locally; lead investors in the first round.	Finance-oriented complexes: New York: Invest outside the region; do not lead in the first round; may invest more in	Hybrid complexes: Boston, Texas, Minnesota: Invest locally and outside the region;		
		late-stage ventures	may or may not be lead investors in the first round.		
Gorman & Sahlman, 1989; 1992	Lead vs. nonlead investor in the VC syndicate	Stage (early – late)	Time allocation	Types of assistance provided to ventures	
Fried & Hisrich, 1991	Financial resources	Staff resources per investee	Venture stage (minimum investment size), fund size	Level of vertical integration; serving as the lead investor	Industry expertise (geographical regions)
Ruhnka & Young, 1991	Due diligence (early stage)	Staged investing	Portfolio diversification	Special expertise or relevant technical or managerial experience	
Sapienza, 1992	Stage	Venture innovation	Venture competitive strategy	Entrepreneur experience	Involvement (interaction)
Norton & Tenenbaum 1992	Diversification vs. specialization				
Gupta & Sapienza, 1992	Diversification vs. specialization	Stage	Ownership structure	Size	Source of capital
Elango et al., 1995	Stage	VC firm size	Geography		
Muzyka, Birley, Leleux, 1996	Location/Stage: The National Investors: Prefer to invest in a national location ; focus on a particular stage of investment	Deal/Risk: The Dealers: Primary focus is on the characteristics of the deal; its fit with portfolio and time to break even	Management Mainstream investors		
Engel, 2004	Experience/size	Investment stage	Profit orientation	Regional specialization	
Gompers et al. 2006	Diversification vs. specialization				
King, 2008	Diversification	Specialization	Differentiation		
Wasserman, 2008	Size	Structure	Time horizon		

Figure 1. The main strategy-shaping factors identified in research on VC strategy.

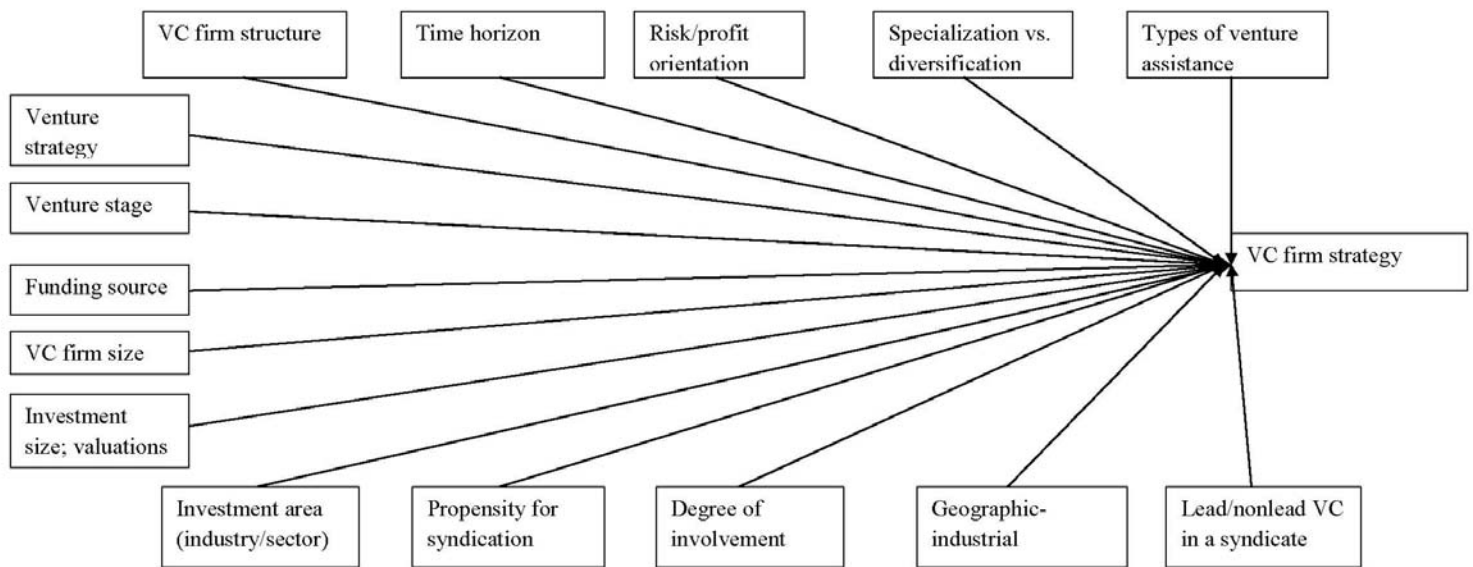


Figure 2. The main strategy-shaping factors identified in research in this study.

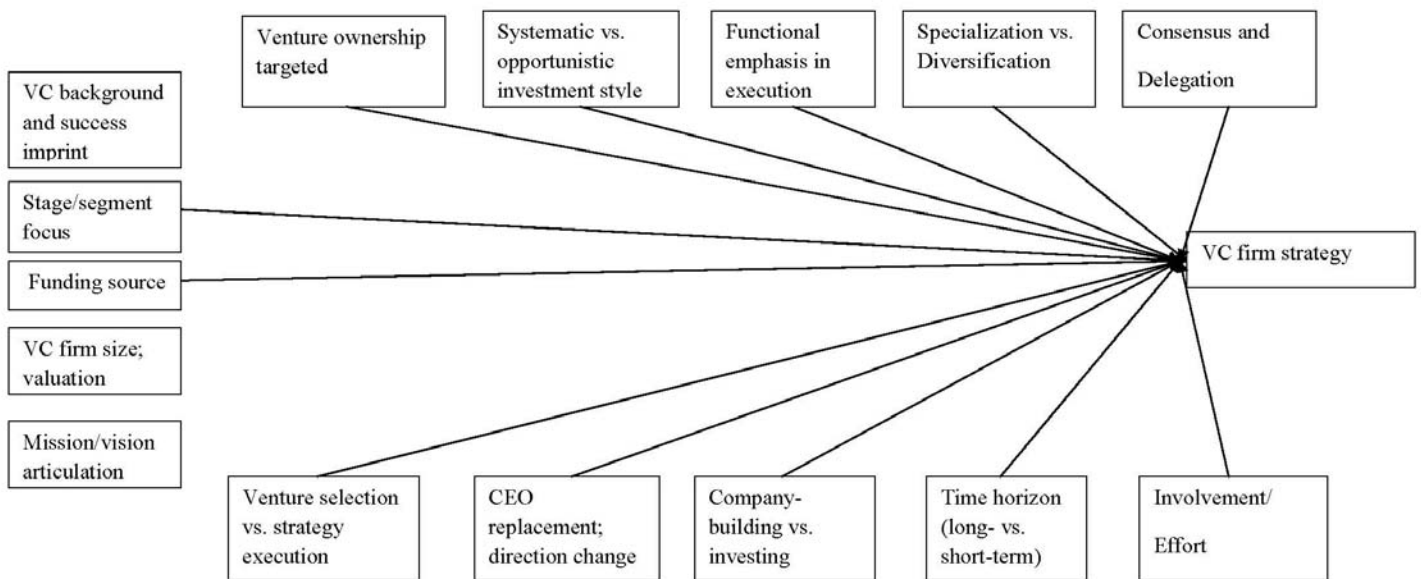


Table 2. Common and divergent strategy-shaping factors in prior research and this study

	Common (Overlapping Factors)	Divergent Factors (F1 but not F2)
1.		Venture strategy
2.	Venture stage	
3.	Source of funding	
4.	VC firm size	
5.	Investment size; valuation	
6.	Investment area (industry/sector)	
7.		Propensity for syndication
8.	Degree of involvement	
9.		Geographic-industrial complex
10.		Lead/nonlead VC in a syndicate
11.	Types of venture assistance	
12.	Specialization vs. diversification	
13.		Risk/profit orientation
14.	Time horizon	
15.		VC firm structure and delegation
		Divergent Factors (F2 but not F1)
16.		The imprint of partner background
17.		Mission/vision articulation
18.		Venture selection vs. strategy execution
19.		East Coast – West Coast dichotomy
20.		CEO replacement; direction change
21.		Company-building vs. investing
22.		Functional emphasis in execution
23.		Systematic vs. haphazard and opportunistic investment styles
24.		Consensus and voting
25.		Venture ownership targeted

Figure 3. Strategy-shaping factors and main themes.

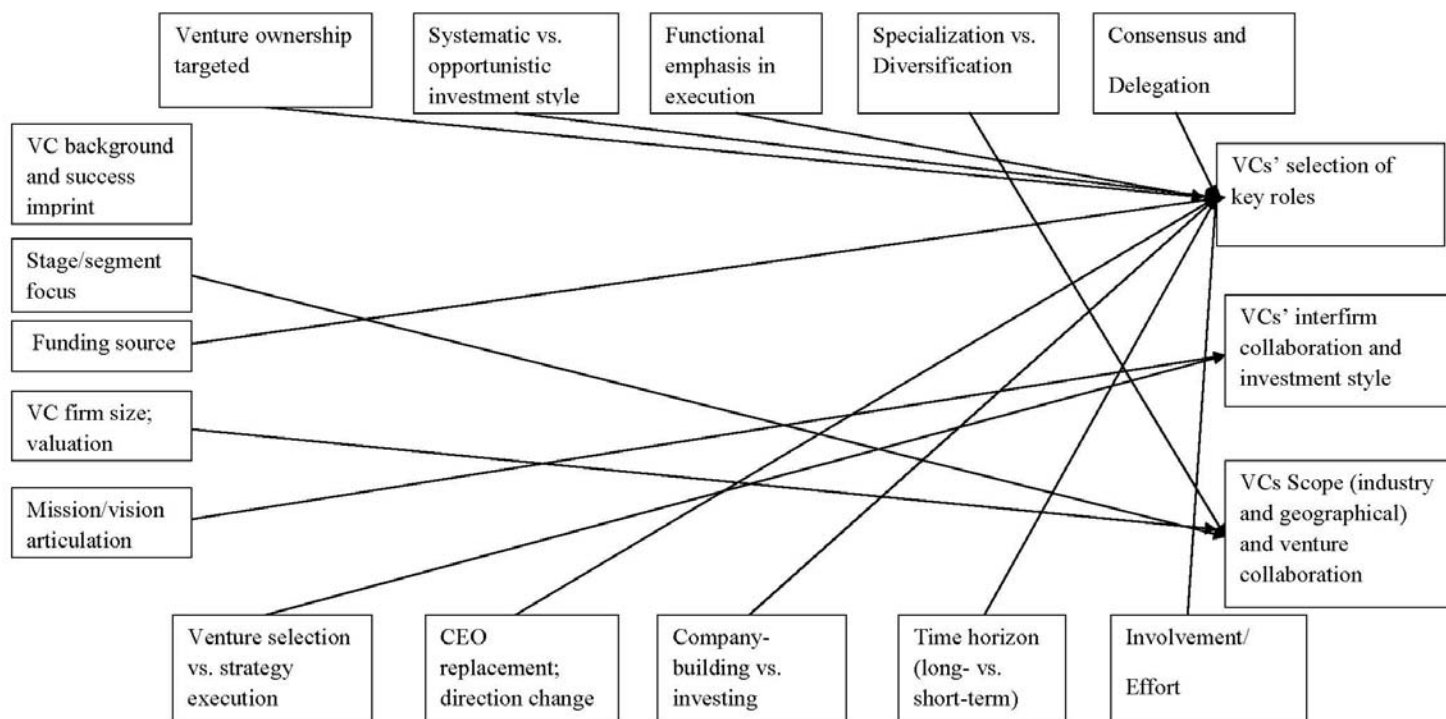


Table 3. The main strategic themes identified in VCs' published interviews.

	VC	Roles and Functional Assistance to Ventures (Investor-controller vs. Coach-designer vs. Expert-Consultant)	Partner Equality and Investment Style Uniformity: Homogeneous/ Heterogeneous VC Firms	Firm Scope (Broad vs. Narrow) and Portfolio Companies' Collaboration Inducement (Autonomous vs. Synergistic Approach)
1.	Michael Moritz, Sequoia Capital	Investor-controller	Homogeneous: Our investment philosophy is "simple and it has never changed"	Broad and autonomous: "selection of promising markets"
2.	Suzanne King, New Enterprise Associates	Coach-designer: "We also spend a lot of time recruiting executives, working on strategy, and introducing them to potential customers through our network." "You can filter it through your portfolio companies pretty quickly and see what they think."	Heterogeneous: "another thing that makes us unique is that as a partnership we compensate all our partners equally on every deal" "So I have partners on both coasts that do a lot of things for all my companies." "We are all ex-operators out of business-to-business like companies"; "We tried not to get swayed into the business-to-consumer space because most partners really don't have that expertise."	Broad – synergistic: "when entrepreneurs choose NEA as a partner, they are not just getting the point person; they are getting the whole network." "We especially like wireless, broadband, and anything that continues to push the Internet..."
3.	Roger Novak, Jack Biddle, Novak Biddle, Venture Partners	Expert-consultant: "we are probably more technically oriented than a lot of the funds... We are also really active in the companies we invest in"; "We want the management to have a lot of ownership."	Homogeneous: "we really want a unique proprietary advantage."	Narrow – autonomous: "Each company has their own list of things they have to execute on. If they do this, they win. If they don't do it, they lose."
4.	Robert Kagle, Benchmark Capital	Coach-designer: "When we founded Benchmark we conceptualized our business as a service business rather than as an investment business"	Heterogeneous: "We founded the firm on the notion of equal partnership. We decided that we didn't want anybody at this firm to ever feel like they haven't been treated fairly. We want everybody to feel maximum empowerment"; "we now have a totally flat partnership of six general partners and no associates."	Broad – synergistic: "If you're helping them build their companies, they're more than happy to share that information with their friends. Our best marketing tool is our list of portfolio companies."

Figure 4. The ownership-collaboration matrix.

Ownership orientation		
Weak	Strong	
Collaborator (coach-designer)	Balancer (investor-coach-expert)	Strong
Specialist (expert-consultant)	Principal (investor-controller)	Interfirm collaboration and venture networking orientation
		Weak

SURVIVAL PATTERNS AMONG SMALL BUSINESS INSTITUTE® CLIENTS

Matthew Sonfield, Hofstra University

ABSTRACT

While Small Business Institute ® and similar university-based student consulting programs have existed for many years, there has been minimal analysis of *long-term* client survival. This current study analyzes 190 small business clients of one SBI program that were provided with consulting assistance between 1976 and 1998, with a focus on those businesses still in operation in 2005. The survival data, categorized by type of business, are considered in light of the existing literature on *SBI consulting*, on *management consulting in general*, and on *business survival*. While the data in this study provide category sample sizes too small for valid statistical analysis, this investigation can provide a starting point and impetus for similar future studies of the records of other universities' SBI-type programs. The combined data of this and future studies may identify significant factors leading to consulting client survival. An understanding of such variables may in turn lead to more effective consulting activity and programs.

INTRODUCTION

University-based student consulting programs designed to assist small businesses have existed since the early 1970s. In 1972 the Small Business Institute ® ("SBI") program was established as a partnership between the U.S. Small Business Administration and a number of American colleges and universities. Over the years, this program has grown substantially. Today, several hundred colleges and universities conduct SBI or similar programs, utilizing both graduate and undergraduate students, to provide a variety of consulting and assistance services to local small businesses and other clients (Cook & Belliveau, 2006).

The purpose of this study was to examine one university's lengthy experience in the Small Business Institute program, in the context of the literature on consulting and on business survival, with a specific focus on survival rates and possible patterns of

survival. The literature on management consulting suggests that certain factors may influence the survival rates of consulting clients, and this university's past client data were analyzed for possible survival factors and patterns. While a single study of only one SBI program's clients can not lead to conclusions and useful generalizations, this study's results can provide data which future research can build upon, using similar data from other university student consulting programs.

The author's institution, the XXXX School of Business at XXXXXXXX University XXXXXXXXXXXXXXXX, XXXXXXXX, instituted its Small Business Institute consulting program in 1976. From that year through 1998, a period of 23 years, faculty-supervised student consultants, sometimes individually and but more often in teams of two to four students, conducted 243 semester-long consulting projects for a

total of 199 clients, primarily local XXXXXXXXXXXX small businesses but also some not-for-profit organizations, such as chambers of commerce and performing arts centers. (Some clients, pleased with the consulting assistance, returned to XXXXXXXX's Small Business Institute several years later and requested additional consulting assistance.)

REVIEW OF THE LITERATURE

SBI Consulting

Over the years of the SBI program's existence, a number of studies have been conducted to evaluate these programs' effectiveness. Many of these studies concluded that these programs were beneficial to the clients and cost-effective to the various colleges and universities and to the Small Business Administration, which in combination provided the financial and service support for the individual programs (Chrisman, 1999; Chrisman et. al., 1985; Khan & Rocha, 1982; Nahavandi & Chesteen, 1988; Rocha & Khan, 1984, 1985). Yet some of these studies have met criticism, both because they were often conducted by people who had a stake in the continuation and growth of such consulting programs, and because the research methodology sometimes had serious limitations (Elstrott, 1987). Furthermore, there has been minimal analysis of the *long-term* effects of these consulting programs, including the survival of the business clients (Sonfield, 2007).

Management Consulting in General

Looking at management consulting in general, much of the literature has been more skeptical of the effectiveness of such consulting. For example, Bracker and Pearson (1985),

using a MANOVA-based empirical study, found no statistically significant differences in the performance of a group of companies that received management consulting assistance and another matched group which did not receive any such assistance. Soriano (2003), in a Spanish study, concluded that management consulting often provides recommendations that are basically simply common sense, but too often the consultation is requested at an early and precarious stage in the firm's growth, when subsequent business failure is more likely to occur in spite of the consulting assistance.

More broadly, Wright and Kitay (2002) reported that the legitimacy of management consulting has come under attack, often due to the intangible nature of the consulting process. They concluded that this process is often too subjective, which then leads to client doubt and non-implementation of the consultants' recommendations. And Argyris (1996) saw a general reason for the ineffectiveness of much of management consulting: the fact that the human mind is a "finite processing system," not always capable of accepting recommendations for major change.

Looking at more specific reasons as to why management consulting may not be effective, Madison and Junell (1998) found several specific factors which can lead to client dissatisfaction, including the perceived risk and cost of the consultants' recommendations, as well as the consulting team members' personal characteristics. Aldhizer, Truner and Shank (2002) found that client perceptions of consulting quality appear to be affected by the type of service provided, but not by the type of provider or by the interaction of provider type and service type. Ames (1998) and

Kubr (2002) have both focused on the *implementation* of consulting recommendations as the key to successful or unsuccessful consulting. The consultants' role in the implementation of recommendations is critical, yet too often this role is not stressed or performed satisfactorily in the consulting process. And in SBI student consulting projects, the recommendations are often conveyed near the end of the semester, with little or no time available for the students to assist in the longer-term implementation.

In summary, management consulting, and especially student-based consulting, is an uncertain, subjective and precarious process, with the outcome and effectiveness often less than satisfactory.

Survival

Most of the data available on small business survival rates focus on the short-term, from two to ten years from start-up, and the specific rates reported vary by source. For example, several sources report that two-thirds of new businesses survive at least two years and 44 percent survive four years (SCORE, 2007; Small Business Notes, 2007). A U.S. Small Business Administration sponsored research study conducted by Popkin (1991) identified several factors that correlate positively with future survival, including business age (at the time of first identification), business size, having more than one business location, and being in manufacturing or wholesaling rather than retailing. However, this study too did not look beyond ten years of company history and survival. Looking more specifically at business types, another U.S. Small Business Administration sponsored study found

the following 1997-2001 survival rates by business categories (Lowrey, 2005):

Manufacturing	74%
Retail	69%
Services	72%
Wholesale	71%
Non-classifiable	21%

Other studies have found that various forms of assistance to businesses and business owners appear to improve a start-up's chances for survival. 87 percent of incubator-based start-ups survive at least five years (Veasley, 2003); clients of Small Business Development Centers usually have half the failure rates of start-ups in general (Chrisman & McMullan, 2004); and graduates of business schools have higher survival rates (Upton, Sexton & Moore, 1995).

Although franchise opportunities are often viewed as a safer form of business for nascent businesspersons to enter, Bates (1995) found that franchise start-ups have lower survival rates (65 percent for one to three years of success) than do comparable independent start-ups (72 percent for the same time period). Bates posits that popular franchise niches have become saturated and thus the lower survival rates.

Considerably more data exists for *large* business survival rates. Many major business publications compile annual listings America's largest companies. Of the *Forbes 100* companies in the 1917 listing, 18 were still on the 1987 listing. This 18 percent 70-year survival rate is for the *listing*, and many of the companies from 1917 may still have been in business but had merged with other companies or had fallen below the listing. Similarly, one can examine the *Fortune Top-100* listings. Looking at a time period from 1974 to 2004, 51 of the companies on

the 1974 listing were on the 2004 listing. But this is not an indicator of “failure,” since most of the 49 companies that dropped from the listing did so because they merged with another company or were acquired by another company and thus the original corporate name disappeared from the listing.

METHODOLOGY

As previously discussed, the Small Business Institute program of the XXXX School of Business at XXXXXXXX University served a total of 199 clients from 1976 through 1998, a period of 23 years. In 2005, a search for these former clients found 61 still in business, a survival rate of 30.7%. As the date of the consulting assistance was anywhere from seven to 23 years prior to this search, such a survival rate is consistent with most of the literature, which indicates that about one-half of

small business start-ups survive past five to seven years (Kuratko & Hodges, 2006, p.13). Nine of the 199 clients were not small businesses, but rather were not-for-profit organizations, leaving a net of 190 *small business* clients. Of these, 52 businesses survived, for a survival rate of 27.4%. (All nine not-for-profit clients survived.)

Although, as discussed above, the literature suggests several possible factors which might impact survival rates, this current study focused on *type of business*. The XXXXXXXX Small Business Institute past clients could be categorized as *retail store*, *service provider*, *manufacturing* or *wholesaling* and each of the 190 small business clients was categorized into one of these four groups. The categories of the 52 surviving businesses were then analyzed to determine survival rates for each category.

RESULTS

A tabulation of the collected data is presented in Table 1:

Table 1

SBI Client Survival by Business Type

	Total Number <u>Of Clients</u>	Surviving <u>Clients</u>	Percent <u>Surviving</u>
Retail Store	40	9	22.5%
Service Provider	99	32	32.3%
Manufacturing	36	7	19.4%
Wholesaling	15	4	26.7%
Total	190	52	27.4%

DISCUSSION

The business type category survival rates in this study vary from about 19% to about 32%, which may appear to be a sizable and significant range of rates. However, the individual sample sizes, ranging from 99 to 15, are too small for meaningful statistical testing (<http://statpages.org/>). Yet a qualitative analysis of the data indicates that *business type* may be a meaningful factor affecting the survival rates of SBI and other consulting clients.

This study's data can be compared to the previously-discussed Lowrey (2005) data, and in that data one can see a different pattern of business type survival rates in terms of position and numbers. The Lowrey study analyzed a very large data base of businesses compiled by the U.S. Census Bureau, which purported to include *all* U.S. businesses from 1997 to 2001. The variation in survival rates for the same four categories was much more narrow, from 69% to 74%, as would be expected from the very much larger sample size, and perhaps also due to the short four-year time period analyzed.

Another issue must be considered when analyzing *long-term* survival rates, as in this current study, in comparison to the *short-term* data collected in most other business survival studies. In the short-term (two to ten years), non-survival is usually due to business failure. Yet this XXXXXXXX SBI data represents possible survival periods of seven to 23 years. Because virtually all of the clients were small businesses, owned and managed by one or a few individuals, it can be expected that many of these businesses would eventually close down due to reasons other than failure, such as owner-manager retirements, ill-health, deaths, or simply

owners' other interests and new business ventures. As previously discussed, there is very little data on *long-term* small business survival available, to which this current data can be compared.

IMPLICATIONS

As discussed earlier, the literature on management consulting suggests that certain factors may influence the survival rates of consulting clients. While this individual study of only one SBI program's clients can not lead to conclusions and useful generalizations, this study's results can provide data which future research can build upon, using similar data from other university student consulting programs. The combined data of this and future studies may identify significant factors leading to consulting client survival. An understanding of such variables may in turn lead to more effective consulting activity and programs. This is further discussed in the following "Conclusions" section of this paper.

CONCLUSIONS

This study was intended to be an invitation for future research. The individual category sample sizes of this investigation are too small, and this is only one university's experience. What this study can provide is a starting point and impetus for similar future studies, conducted by other directors of SBI-type programs. Many American colleges and universities have student consulting programs going back to the 1970s and 1980s, and some of these institutions may have records of past clients that can provide similar data for analysis. Efforts can be made to determine those past clients still in existence. The listings of past clients can be categorized by business type and by other variables,

such as business age at the time of the consulting assistance, and the number of business locations (two possibly useful variables suggested by the previously-cited Popkin [1991] study). As more studies are conducted, and as the combined data provide large and valid sample sizes, then perhaps significant factors leading to consulting client survival can be identified. An understanding of such variables may in turn lead to more effective consulting activity and programs.

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TATTOOS, PIERCINGS, BODY ART AND SMALL BUSINESS TO HIRE OR NOT HIRE?

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ABSTRACT

This paper examines the current issue of body art, its emergence in popularity, its role in current culture, and employers' reactions. Is this a fad or an emerging culture that should be protected? The key questions are what are the rights of employees to "self expression" and what are employers' rights to discriminate? The conclusion provides some guidelines for both.

INTRODUCTION

From childhood to maturity we are taught to distinguish between pleasant objects that might taste, smell, or feel good and dangerous ones. As we mature these cumulative decisions build a complex system of discrimination enabling adults to function effectively. While some discriminators are derived from personal experience, some are provided by our culture (Hofstede, 1997).

Items used to enhance or distinguish personal appearance always have been and always will be prevalent. Archeologists have found ancient mummies with body art, earrings and piercings (Endo, 2007). The Baby Boomers as well as Generation Xers and Generation Yers have used self expression in different ways (Brooks, 2006; Generation X and the Millennials, 2005). Appearance discrimination has probably always existed from ancient cultures to today's. Several countries report various forms of appearance discrimination including: New Zealand (Patterson, 2007), Australia (Davis, 2008), Canada (Tattoos, peircings seen to hinder job search: poll, 2007),

England (Davidson, 2008), Scotland (Horne, 2008), Ireland (More than skin deep, 2007), and the United States (Harper, 2008).

The Popularity of Body Art

Ancient cultures used tattoos and body piercings. The mummified remains of a 5,000 B.C. Iceman had pierced ears. Some nose piercings date to biblical times such as those described in Genesis (Endo, 2007; It'll never fly-piercings, 2007). Some Indian women believe that a stud or ring in their left nostril is associated with female reproductive organs and facilitates easier childbirths (Endo, 2007).

In the recent past, tattoos were associated with marginalized groups such as carnival workers, motorcycle gangs, and ex convicts (Price 2007). Current statistics on the extent of body art vary but point to an increasing trend in the U.S. and other countries (Matthews, 2008). A medical telephone survey found that 35% of the respondents in the 21- 29 year old age group had tattoos (Price (2007) A Canadian survey found 42% of the respondents either had a tattoo or body

piercing (apart from earrings) (Chai, 2008). A scientific survey reported in the *Journal of the American Academy of Dermatology* found that 1 in 4 Americans have at least one tattoo (Lauman & Derick, 2006). Gardner (2007) reports increasing usage by younger workers: over 40 only 10% usage, 26 to 40 years of age 40% usage (a 14 year span) and 33% for 18 to 25 years of age (a seven year span). Gardner estimates that 40 million Americans have tattoos (Gardner, 2007).

THE PURSUIT OR ABSENCE OF A DISTINCT APPEARANCE CAN BE EXPENSIVE TO ONE'S CAREER AND POCKETBOOK

The importance of appearance is evident from the amount of money spent and reactions from employers and employees (Young, good looking get ahead in the workplace, polls say, 2007). Britons spend E37 million on beauty and appearance aids, an increase of 130% from 2002 (Parsons, 2007). Researchers from the Mintel organization found that 3 of 10 people, mostly women and young girls have used beauty supplements (Parsons, 2007; Zekas, 2008). An online survey of 1,000 people found that 17% had changed their appearance to look younger to potential employers and a significant number considered cosmetic surgery (Avery, 2007).

A number of studies confirm that overall appearance affects hiring, job tenure, and income. In one study, 40% of the overweight males and 60% of the overweight females reported that they had not been hired for some jobs because of their weight (Martin, 1994). A study by Stephen Gottmaker found that for women at the 95th percentile for height and weight earned \$6,710 less

than non-over weight women (Martin, 1994). They were also 10% more likely to live in poverty (Fraser, 1994). A study of NAAFA (National Association for the Advancement of Fat Acceptance) members found that 80% of those at least 20% overweight were denied jobs because of their weight appearance (Fraser, 1994).

A recent review of 25 years of research on weight bias examined 25 separate studies and found that obesity significantly impacts employees' careers. The bias was strongest in sales and managerial positions. A complete set of stereotypes exists about obesity. Today's culture views overweight people as lazy, sloppy, with little self discipline and cause their employers higher health care costs. Interestingly, the bias decreases with longer tenure at an organization. The bias was greatest at hiring, less at performance appraisal, and minimal for promotions (Reuters staff, 2008). An eating disorders specialist argues that such biases are unfounded because the vast majority of obese people eat no more than average sized people. He argues that genetics accounts for 70% of the differences among body sizes, therefore overweight individuals burn fewer calories. Regardless of how someone got fat, the stereotype that they are not disciplined to go on a diet and lose weight is wrong, only a small percentage of dieters maintain their weight loss after five years, most gain the weight back (Fraser, 1994).

If the public, culture, and especially, employers, have such strong biases on weight appearance, what are employer reactions to body art which is without question self induced? Ninety-two percent (92%) of employers agreed that the candidate's appearance during the interview affected the job decision

(Attractive candidates have an edge over bosses, 2008; Downes, J, 2007; Age bias at work, 2007). A Canadian survey found that 82% of the respondents believed that tattoos and body piercings would impede an individual's ability to find a job (Tattoos, piercings seen to hinder job search: poll, 2007). A Texas State University study of body art found significant employer prejudice about body art. Many employers and coworkers still associate it with motorcycle gangs and outcasts. Coworkers do not want to work with tattooed colleagues believing that such associations will impact their own job performance (Harper, 2008).

Such biases depend on the age of the respondent, the industry, and experience with tattooed employees. Generations Xers and Yers are more receptive to body art than baby boomers (Brooks, 2007). Some in these generations believe that discrimination against body art will diminish as the baby boomers retire (Gardner, 2007). Entertainment and technology have more liberal dress codes and attitudes as opposed to banking, law, pharmaceutical firms, and insurance companies (Gardner, 2007). A majority of current students do not believe employer fears about body art are grounded (Mxxxo xxxx College, class room discussion, 2008). Many believe that it is not a fad and will be ingrained as an acceptable part of the future American culture. One employer commented that they would not have hired an applicant who turned out to be an excellent employee if they had known about her body art (Haw, 2006).

TO HIRE OR NOT TO HIRE RETAIN OR NOT RETAIN? THE LEGAL ISSUES

With this broad understanding of the origins, pursuit of distinguishing oneself with body art variations, and its subsequent impact on appearance, the question becomes what are the legal rights of both employers and employees?

Background

Title VII of the federal Civil Rights Act of 1964 (42 U.S.C.S. sec 2000, 1964) disallows employer discrimination on the basis of sex, race, national origin, and color. The protected classifications of religion, disabilities, and age were added by separate laws and placed under the jurisdiction of the Equal Employment Opportunity Commission (EEOC) which is charged with enforcement. The federal law does not mention personal appearance nor body art (42 U.S.C.S. sec 2000e et seq, 1964). Only Michigan (Elliot-Larsen Civil Rights Act, Sec.s 101(1) and 102(2), 1992) and the District of Columbia (District of Columbia Sec. I-2501 to I 2557, 1977) disallow employer discrimination on appearance. In addition, the federal law in its definition of what employers are covered excludes small employers with less than 25 employees. Each state defines "employers" differently, Colorado, for example, defines employers as having only one employee (C.R.S.A. 24-34-402, 1989).

The EEOC and Personal Appearance

While the number of appearance cases is small relative to other categories, the number of EEOC suits where employees prevail has increased with an increasing amount of money in their claims (EEOC Settlement Data

(www.eeoc.gov, 2008). In *EEOC v. Abercrombie & Fitch*, the company lost a \$50 million settlement from a restrictive marketing image and other policies which limited minority and female applicants and possible promotions (*EEOC v. Abercrombie & Fitch*, 2004). A McDonalds franchise lost to an employee who was facially disfigured with a large port wine stain. She started as a cook with the understanding that she could move into management. She was removed from the front counter because of her appearance and she sued (*EEOC V. R.P.H. Management*, 2003). Red Robin Gourmet Burgers lost a \$150,000 religious discrimination suit over an employee's tattoo (*Burger Chain to Pay \$150,000 to Resolve EEOC Religious Discrimination Suite*, 2005). Similarly, the EEOC prevailed on behalf of an employee with a cleft palate (*EEOC v. W.H. Braum, Inc.*, 2004).

Most successful employee suits are based on religion discrimination claims that their body art is a religious expression.

Religion and Body Art

In order to win a religious discrimination suit against an employer, an employee needs to present a prima facie case that: 1) they had a strongly held spiritual or religious belief, 2) the belief was the basis of the employer's adverse action, 3) they brought the matter to the attention of their employer and 4) the employer either did not attempt to accommodate them or refused to negotiate an accommodation (*EEOC v. Union Independiente de la Autoridad de Acuenductos y Alcantarillados de Puerto Rico*, 2002).

Supreme Court rulings establish that the belief has to be strongly held, does not have to come from what might

be considered an established religion, and therefore can be a spiritual belief (*Trans World Airlines Inv. V. Hardison*, 42 U.S.63, 1977). The employer must attempt to negotiate with the employee and only has to offer a reasonable accommodation which may not be the employee's preferred accommodation. The employer is not required to provide more than a de minimis cost which means that they do not have to hire additional workers, impact their seniority system, or occur more than minimal costs (*Trans World Airlines, Inc. V. Hardison*, 432 U.S. 63, 1977).

The EEOC successfully pursued this approach for Edward Rangel, a server at a Red Robin Gourmet Burgers, Inc. winning \$150,000 for the employee (*Burger Chain to Pay \$150,000 to Resolve EEOC religious Discrimination Suit*, 2005). Mr. Rangel completed a rite of passage into the Kemetic religion, an ancient Egyptian faith, by tattooing Egyptian scripture onto his wrists. They were less than a quarter inch wide and encircled his wrists. Red Robin's dress code required that tattoos be covered to present a "wholesome image" to its customers and refused to accept his faith explanations. A similar case brought the opposite ruling in *Cloutier v. Costco* (390 F.3d 126, 2004) which upheld Costco's no facial jewelry policy against a religious suit. In this case Kimberly Cloutier received a copy of the Costco employment agreement which included the employee dress code. When she was hired she had several earrings but no facial piercings. Costco revised its dress code in 1998 to disallow any food handlers from wearing any jewelry. She refused to remove her earrings and was transferred to another position that permitted her jewelry. In March 2001 Costco revised its dress code to prohibit

all facial jewelry except earrings. Coultier did not inform her employer of her religious beliefs and continued to wear her eyebrow piercings.

When Costco began enforcing its no facial jewelry policy in June 2001 she refused to comply and then announced that she was a member of the Church of Body Modification (CBM) and that her eyebrow piercings were part of her religion. Costco's suggested accommodation was to cover her piercing with a band aid at work.

Both the District Court and the Ninth Court of Appeals rejected her claim without getting into the issue of whether this was a sincerely held belief. The majority believed that it was her personal interpretation of her belief and not one required by her religion (Cloutier v. Costco, 311 F.Supp.2d 190, U.S. Dis. Ct. D. Mass, 2004 aff. 390 F.3d 126, Ninth Cir. Ct. App, 2004). More importantly, the company met the de minimis standard by offering an accommodation that she cover up her eyebrow piercing with a band aid while at work. An employee with a KKK tattoo lost his religion claim where the employer simply required him to cover it at work (Swarzentruher V. Gunite, 99 F. Supp. 2d 976 (N.Dist. In, 2000).

Similarly, Courts have generally upheld public employer dress codes requiring employees to cover up their tattoos while at work against religious discrimination suits (Montoya v. Giusto, 2004 U.S. Lexis 29363 Dist. Or. 2004; Riggs v. City of Fort Worth, 229 F. Supp. 2d 572 D.Dist. Tx., 2002). Public sector employees rely on the Civil Rights Act and the Fifth and Fourteenth amendments to the Constitution. The police officer, Mr. Riggs, argued that his tattoos were based on his race, sex, national origin and free expression

(Riggs v. City of Fort Worth, 229 F. Supp. 2d 572 D.Dist. Tx., 2002). The Police Chief's suggested accommodation to cover up his tattoos while on duty met the minimal accommodation requirement even though the individual suffered heat exhaustion from the additional clothing. The court believed that his body art was not a form of protected free expression especially while on duty (Riggs v. City of Fort Worth, 229 F. Supp. 2d 572 D. Dist. Tx., 2002). Similarly in Inturri v. City of Hartford (35 F. Supp. 2d 240 Dist. Conn., 2005), several police officers with spider web tattoos were unsuccessful with their religious discrimination suit where the Police Chief provided a legitimate state interest (purpose) of building harmonious relations with other police officers and the public (Inturri v. City of Hartford, 35 F. Supp. 2d 240 Dist. Co, 2005).

Cases using the Sex, Race, or National Origin

A search of published cases did not find any instances alleging race, sex, or national origin discrimination from body art use except Riggs in the previous case. While it is theoretically possible to pursue such a case, current case law would make this argument difficult to sustain.

The federal and most state civil rights laws do not mention personal appearance. To succeed, plaintiffs need to argue that some employee characteristic is inextricably bound together with any of the protected characteristics such as race, sex, religion, color, national origin or disability (Yanowitz v. L'Oreal, 36 Cal. 4th 1028 Sup. Ct. Ca, 2005). An example is where female flight attendants successfully argued that weight gain was

more pronounced for women as they age as opposed to men, thus binding weight—an unprotected characteristic into a protected characteristic- gender. In addition, United Airlines had used the medium height and weight standard for women and the large framed standard for men which created disparate impact (Frank v. United Airlines, 216 F.3d 845, Nin.Cir.Ct. App, 2000).

A lead case is Price V. Waterhouse (490 U.S. 228 U.S. Sup. Ct, 1989) where a female accountant was denied senior partner status because the partners judged her appearance to not be “feminine” enough. These and other remarks led the court to conclude that the employment action was based on sex stereotyping which was illegal (Price Waterhouse v. Hopkins, 490 U.S. 228 U.S. Sup. Ct., 1989).

The rulings in Frank and Price would seem to indicate that the unprotected classification, body art, could somehow be combined into the protected classifications of sex or race. However, the Ninth Circuit ruling in Jespersen v. Harrah’s (444 F.3d 1104 Ninth Cir.Ct. App, 2006) would make this very difficult. Harrah’s dress code required males and females to look well groomed. However, the dress code required males to wear short hair no longer than the top of their collar, no ponytails, and no eye or facial makeup. Women, on the other hand, could have long hair but it had to be worn down at all times, and they were required to wear makeup with face powder, blush, mascara, and lipstick. This policy on its face raises the question as to whether this is gender stereotyping based on current American cultural beliefs about gender appearance-working women should always wear make-up, men should not and have shorter hair.

However, the Court ruled that grooming standards that “appropriately differentiate” between the genders is not facially discriminatory nor do standards that impose different but essentially “equal burdens” on men and women create disparate treatment (Jespersen v. Harrah’s Operating Company 444 F. 3d 1104 Nin. Cir.Ct. App., 2006). The key to the ruling is the equal burden analysis; a policy is legal even if it has different gender standards on its face (a disparate treatment basis) as long as the burden is equal. In addition, the court believed that the policy had a negligible effect on employment opportunities (Jespersen v. Harrah’s Operating Company 444 F. 3d 1104 Nin. Cir. Ct, App., 2006).

Theoretically employees can argue that their body art is inextricably intertwined with their race or national origin. However, the courts have consistently overruled such attempts with other “mutable characteristics” such as dreadlocks. The Courts upheld a United Parcel Service dress code that did not permit a black employee’s dreadlocks against his argument that this company policy disproportionately affected black employees (who arguably wear more dreadlocks than other races) (Hamblett, 2002).

In a similar ruling to that in Jespersen case, two white men unsuccessfully argued that the employer’s dress code requiring different hair lengths for men and women created sex discrimination based on their male gender (Rivera and Karwowski v. Trump Plaza Hotel and Casino, 305 N.J. Super 546, 1997). Thus the courts held their ground in refusing to see gender discrimination issues in employer policies that differentiate between male and female appearance requirements. These rulings also

confirm previous court rulings based on disparate treatment or disparate impact.

These, and especially, the Jespersen rulings, make it very difficult for employees to combine body art into sex, race, or national origin claims. In order to escape liability for appearance discrimination, an employer can (and should) require all employees regardless of race, sex, or national origin to cover their tattoos or piercings while on duty. Because such a policy would fall equally on all parties no one could claim unequal burden.

Appearance and the ADA

The final approach would be to argue that body art triggers the Americans with Disabilities Act (ADA). The EEOC has started to pursue cosmetic disfigurement cases within the context of disabilities or where an employer considered an individual disabled. The ADA regulations define physical impairment to encompass cosmetic disfigurement. The EEOC has prevailed on behalf of employees in several suits based on the ADA and cosmetic disfigurements. It won the suits on behalf of the employee with the wine stain covering her face (EEOC v. A.P.H. Management, www.eeoc.gov/pres/3-7-03, 2003), a high school student with a cleft palate (EEOC v. W.H. Braum, www.eeoc.gov/litigation/settlements/08-04.html, 2004), and an individual with Treacher Collins Syndrome, which is a birth defect creating a malformed head structure, eye and ear placement (EEOC v. Hardee's Food Systems 05-830-C V-W-ODS W.D. Kan, 2005). The essence of each of these cases is that the cosmetic disfigurement was a physical impairment protected by the Act. Therefore the difficulty using the ADA to attack an employer's dress code that

prohibited body art is clear. The employee with body art chooses these characteristics; they are not immutable characteristics rising to the definition of a disability.

However, the Act's definition of disability not only covers physical and mental disabilities but also any condition in which the individual is considered to be disabled. If an unknowledgeable employer makes any statement that they consider an individual with body art to be disabled then the individual would be covered

CONCLUSION AND SUGGESTIONS FOR EMPLOYERS

It is the authors' belief that appearance is increasingly becoming an important issue for both employees and employers. More employees are embracing self expression via their appearance which goes with them everywhere -at home and at work. Generation Xers and Yers have strong desires to have a balance between their work and private lives (Generation X and the Millennials, 2008). Younger employees are resistant to employer attempts to thrust work rules into what they consider their private lives or private self expressions. The future will bring many more of these cases as the generations coming into the workforce force employers to rewrite and reconsider appearance policies.

Employers can protect themselves from possible litigation with some simple steps including articulating simple, fully disseminated, clear rules, coupled with employee input, employer enforcement, as well as case by case application of those policies to provide individual requests for accommodation. First, both Generation X and Y employees want to be involved in

decisions that impact them directly (Generation X and the millennials, 2005). Therefore it is important to engage them in constructive discussions of what is acceptable and unacceptable behavior and displays of body art. This is especially true for employees with public contact.

Second, the publication of a clearly stated policy on appearance in an employee handbook that is signed by each and every new employee is crucial. The policy must be written in clear, concise language similar to that in Harrah's employee handbook. Such policies provide guidance to everyone as well as documentation that every employee had knowledge of the policy. Harrah's policy provided its company with a strong affirmative defense to the allegation of discrimination and it is a good start for a company considering a similar dress code.

It is evident that an inherent conflict between the need for company-wide policies that treat everyone the same and the need for companies to provide for well grounded employee exceptions. Because the most successful suits have used religion, employers must take each request for body art exceptions based on a religious claim seriously. They must also negotiate in good faith and attempt a resolution. The most sensible accommodation is the request to cover up the art at work- an accommodation that meets the courts de minimis standard. With these simple guidelines this minefield can be avoided for now.

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THE IMPORTANCE OF SUCCESSION PLANNING TO THE FAMILY FARM IN A VOLATILE ENVIRONMENT

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ABSTRACT

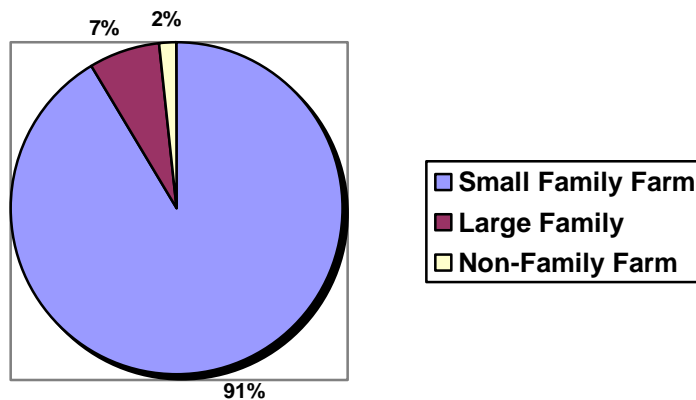
Transferring assets and finding the right successor in an age where farmers' children often have no interest in taking over the family farm is particularly challenging. While the rising price of oil is increasing the cost of fertilizer and fuel, the nation's food supply is also becoming the nation's fuel supply. For livestock farmers, this presents a major increase in production costs due to the rising cost of feedstock. For grain farmers, this presents an increase demand for their products driving up prices and generating greater profits. Land values for farms are at all time highs and rapidly appreciating. The family farm presents a potentially great investment for the financial security of generations to come. There are many conflicts that can arise from the succession planning process, especially when there is a lack thereof or when there is a late start to the process.

INTRODUCTION

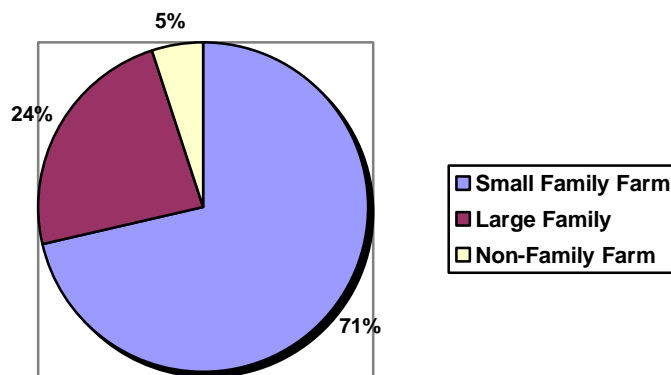
Agriculture has played a vital role in the development of humanity. Just as the agricultural techniques and methods have increased in complexity over time, so has the modern market, with the advent of globalization and the development of an intricate web of property laws and tax policies. The family is the most basic social unit. It is no surprise that farming has developed around this basic social unit. The issue of farm succession is no new one. Passing the farm down to succeeding generations has occurred for thousands of years. Today, it is still a significant issue to be addressed. Although in recent years economies of scale have diminished the association of the family social unit and farming, the family farm is still prevalent. According to a 2005 report from the U.S. Department of Agriculture, 98% of U.S. farms are family farms. 92.1% of farms are small

family farms; 7.1% are large family farms; and 1.7% are non-family farms. Small family farms account for 27.1% of the value of production; large family farms account for 59.1% of the value of production; and non-family farms account for 13.7% of the value of production. Small family farms own 71.4% of U.S. farm assets and 69.7% of land owned by U.S. farms; large family farms own 23.5% of U.S. farm assets and 23.8% of land owned by U.S. farms; non-family farms own 5.1% of U.S. farm assets and 6.5% of land owned by U.S. farms (Structures and Finance of U.S. Farms: 2005 Family Farm Report). Farm households in the U.S. account for a great deal of wealth in the U.S. Farm households had an average net worth of \$549,869 compare to non-farm households with an average net worth of \$395,500.

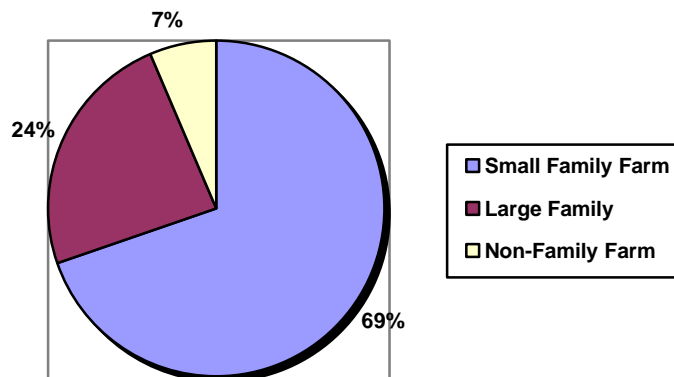
U.S. Farms 2003



U.S. Farm Assets 2003



U.S. Farm Land 2003



Succession of the Family Farm

Farm assets are not assets that are easily divisible or transferable. They are illiquid. As farm operators age and retire, intergenerational transfer of farm assets is vital to continue successful operation of the family farm. The family generally provides a desirable pool of

candidates for successors for any enterprise, but this is especially true of farming, since many of the business assets are tied up in land that is well suited for farming. Contrary to this intuition, some studies have found that farms with more land have a lower probability of intra-family succession

(Mishra et al 3). This is consistent with the finding of the 2005 report where 91% of farms are small family farms but only they own 69% of farm land. However large family farms representing 7% of farms own 24% of land. This leaves the non-family farm accounting for 2% of farms and 7% of farm land ownership. Advances in technology, both internal and external to agriculture, has improved the welfare of the farmer, increasing the ability of the operator to farm at a much greater age than previously.

Agricultural Census Data

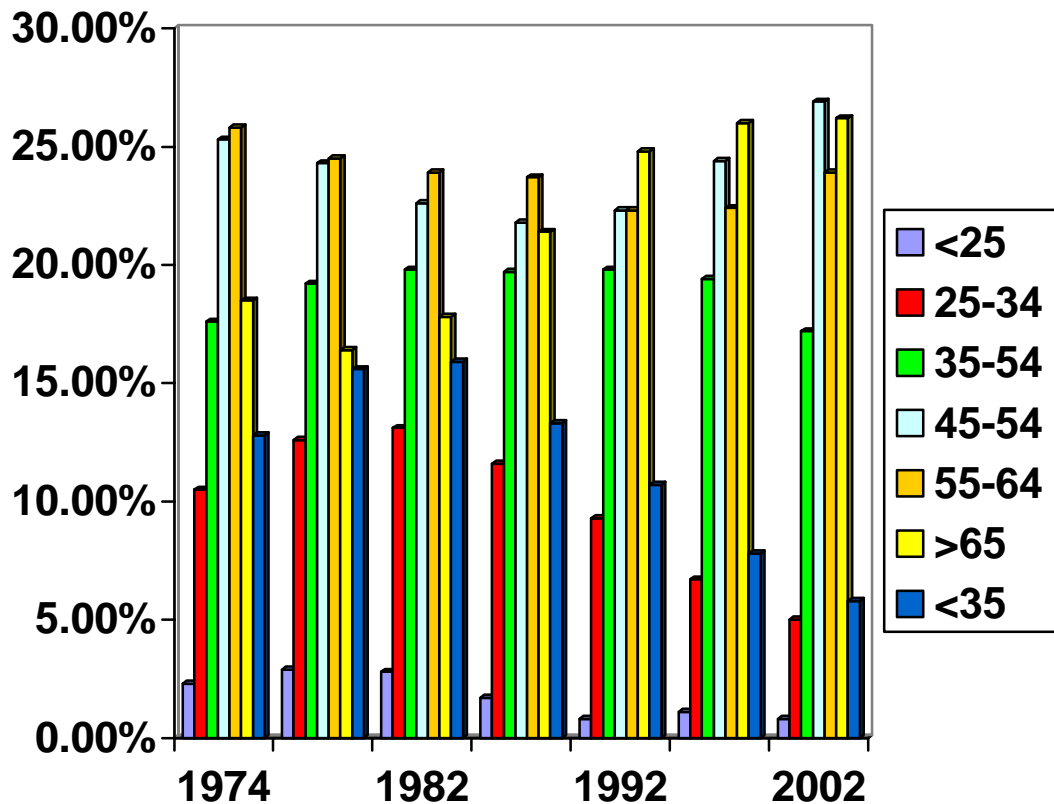
Every five years the Department of Agriculture conducts a census survey. Each time the results of this census are released, some concern is generated regarding the rising average age of the farm operator and farm succession planning. In 2002, a few questions were added to the survey that may shed some light on farm succession. The report published by the National Agricultural Statistics Service (NASS), included for the first time information regarding the number of operators and demographic information for the first three operators including how many people live in the household with each operator. The census survey did not specifically collect data regarding succession planning, but it can be used to identify operations which appear to have succession plans in place (Allen and Harris 1). According to the 2002 census, the average age of the principle farm operator was 55.3 yrs old (Allen and Harris 2). According to the 2005 Family Farm Report, 27.8% of small family farms had an operator age

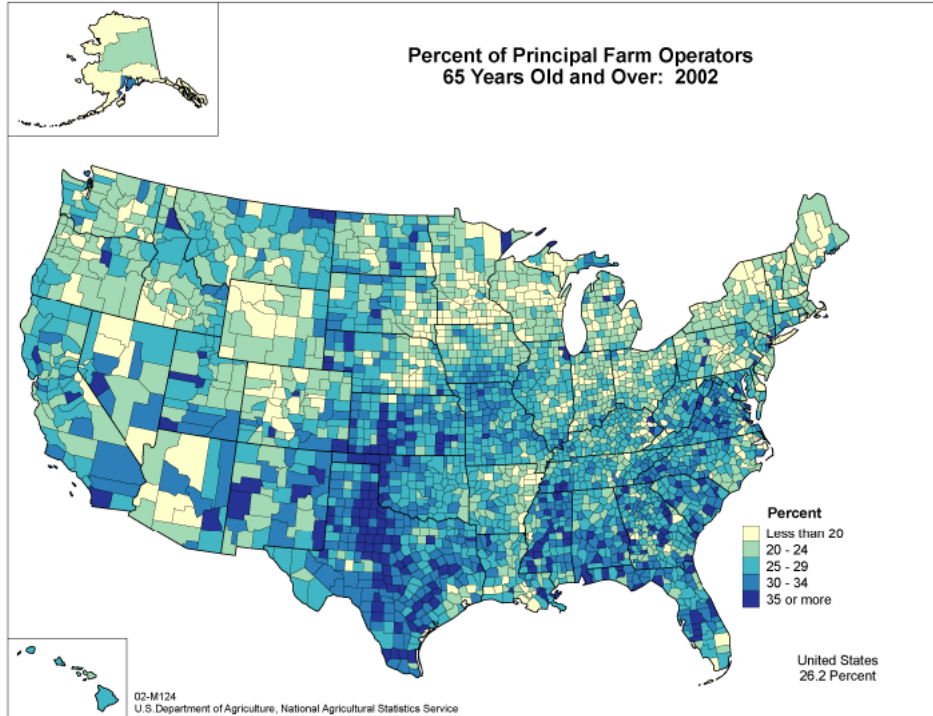
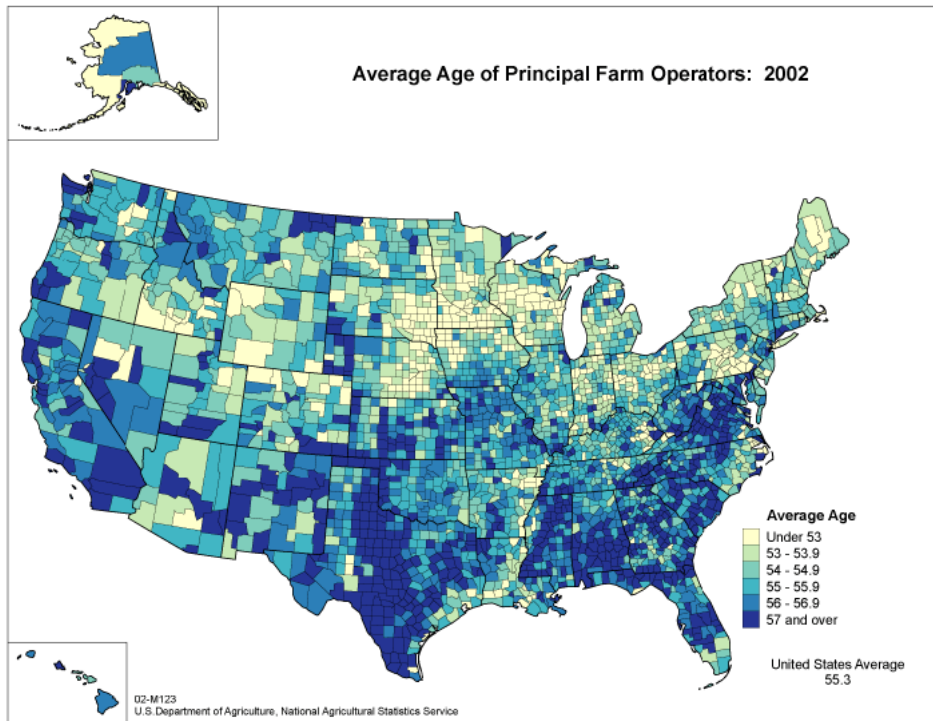
65 or older, whereas 13.7% of large family farms had an operator age 65 or older. Both categories represent and increase from 1995 data where the percentage for small family farms with an operator age 65 or older was 25.5%, and the percentage for large family farms with an operator age 65 or older was just 9.8%. Harris and Allen assume any farms having multiple operators from different generations (at least a twenty year gap) as farms that potentially were operating with succession plans. Only 9.1% of all farms reported operators from different generations (Allen and Harris 3). 37.7% of all farms reported multiple operators (Allen and Harris 4). Of the farms reporting multiple operators, most male-female (65.4%) and female-male (10.7%) combinations reported residing in the same household, suggesting a spousal relationship. The vast majority of these combinations also reported being close to the same age to further support the conclusion of a spousal relationship. 22.1% of farms reporting multiple operators were male-male combinations (Allen and Harris 5). Of the male-male combination of principle and secondary operators, 52.6% reported operators of different generations (Allen and Harris 6). This suggests several things: 1) that alternative succession plans besides having the successor as a farm operator may be in place; 2) succession plans with the successor as a farm operator may have went largely unreported; and 3) there may be an inadequate amount of succession planning.

U.S. Census of Agriculture 1974-2002 Age of Farm Operators

Age Group	2002	1997 adj.	1997	1992	1987	1982	1978	1974
<25	.8%	1.1%	1.1%	0.8%	1.7%	2.8%	2.9%	2.3%
25-34	5.0%	7.0%	6.7%	9.3%	11.6%	13.1%	12.6%	10.5%
35-54	17.2%	20.0%	19.4%	19.8%	19.7%	19.8%	19.2%	17.6%
45-54	26.9%	24.9%	24.4%	22.3%	21.8%	22.6%	24.3%	25.3%
55-64	23.9%	21.7%	22.4%	22.3%	23.7%	23.9%	24.5%	25.8%
>65	26.2%	25.3%	26.0%	24.8%	21.4%	17.8%	16.4%	18.5%
<35	5.8%	8.1%	7.8%	10.7%	13.3%	15.9%	15.6%	12.8%

Age of Farm Operators 1974-2002





Farm Land Value

Farm land values have been on the rise nationwide. The national average is at record high \$2160 per acre.

Arkansas farm real estate value is also at an all-time high. As of the beginning of 2007, the average value per acre in Arkansas was \$2300. This is a 12% increase from 2006 (Coates 1). The Economic Research Service of the United States Department of Agriculture reported that the average farm size in Arkansas is 305 acres. 7.1% of farms in Arkansas are greater than 1000 acres in size (Hazelett 2). This means the average farm in Arkansas is worth approximately \$701,500 excluding debt.

The Economic Growth and Tax Relief Reconciliation Act of 2001

The appreciation of land values has caused some farmers to acquire a taxable estate. In 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). This legislation made significant changes to the US Internal Revenue Code including changes affecting estate taxes, gifting, generational skipping transfer tax. In 2001, the estate tax exclusion was \$675,000. This is the value of the estate that is tax free. EGTRRA increased the exclusion in steps starting in 2002 to \$3.5 million in 2009, and repealed the estate tax altogether in 2010 along with the generation-skipping transfer tax. The generation skipping transfer tax is the tax that applies to estates transferred beyond the next generation i.e. from grandparent to grandchild. In 2007, estates less than \$2 million were excluded from the tax and estates greater than that were taxed at a flat rate of 45%. The same flat rate of 45% applies to estates greater than \$3.5 million in 2009.

EGTRRA did not repeal the gift tax. The lifetime exclusion on the gift tax has remained at its value prior to the act of \$1 million. However, the maximum gift tax rate is reduced to 35% in 2010. EGTRRA increased the annual gift tax exclusion from \$10,000 to \$11,000 with a provision for inflation adjustments in the future. The act did not change the ability of spouses to engage in unlimited gifting during their lifetime as well as upon death. A married couple can shelter twice the exclusion amount even if only one owns the property. This applies to both the gifting exclusion and the estate exclusion.

EGTRRA also established a state estate tax credit, which gave the states a part of the federal estate tax otherwise payable to the federal government. This credit was phased out in 2005 and was replaced by a deduction for state estate taxes. Many states' estate taxes were based on the federal estate tax system. Since EGTRRA some states have enacted their own estate tax systems, while others, such as Arkansas, repealed their estate taxes altogether in 2005. Act 645 of 2003 repealed the Arkansas estate tax in conjunction with the repeal of the federal credit for state death taxes beginning in 2005 (ADFA).

Prior to EGTRRA, property that was subject to estate tax acquired a tax basis equal to its fair market value. This eliminated any capital gain on lifetime appreciation. In 2010 with the repeal of the estate tax, the tax basis, otherwise known as the "carry over" basis, of any property transferred in an estate carries over the original owner's tax basis rather than acquiring the fair market value as its basis. If a piece of farm equipment transfer in an estate had a depreciated tax basis of \$20,000 but a fair market value of \$50,000 and was sold by the

heir at the fair market value, then the heir would be liable for income taxes on the capital gains of \$30,000 under the carry over basis.

While EGTRRA repeals the estate tax in 2010, it has a sunset clause that causes the act to expire at the end of 2010. On January 1, 2011 the estate, gift, and generation-skipping taxes go back into effect along with the old fair market

value basis for property. There is a lot of uncertainty regarding the future of the changes due to EGTRRA. So far, congressional efforts to make the repeal of the estate tax permanent have failed, and it appears unlikely that the estate tax will remain repealed. However, the sunset clause means that changes in exclusions and tax rates are likely in coming years (van der Hoeven).

Year of Death	Estate Exclusion	Estate Credit	Gift Exclusion	Gift Credit
2001	\$675,000	\$220,550	\$675,000	\$220,550
2002-2003	\$1,000,000	\$345,800	\$1,000,000	\$345,800
2004-2005	\$1,500,000	\$555,800	\$1,000,000	\$345,800
2006-2008	\$2,000,000	\$780,000	\$1,000,000	\$345,800
2009	\$3,500,000	\$1,455,800	\$1,000,000	\$345,800
2010	Repealed	Repealed	\$1,000,000	\$345,800
2011	\$1,000,000	\$345,800	\$1,000,000	\$345,800

Internal Revenue Code § 2032A

Under Internal Revenue Code § 2032A, the value of a farm can be valued at a special use rate. This special use rate values assets at their productive capacity rather than their fair market value. The heir must maintain the same use of the assets used to determine the special use rate for ten years following inheritance. In 2007, the special use value was capped at \$820,000 (IRS). The purpose of the cap is to reduce the value of the estate. If the use of the property is not maintained for ten years, then estate taxes not paid due to the special valuation must be paid (van der Hoeven).

EGTRRA and the Taxpayers Relief Act of 1997

The Taxpayers Relief Act (TRA) of 1997 allowed for a reduction in the value of land of 40% up to \$500,000

with the establishment of a conservation easement. This act placed certain constraints on which land was eligible for such a reduction. EGTRRA eliminated these constraints, making all land eligible for the establishment of a conservation easement. If such an easement is put in place while living, then the reduction of property value is available to the value of the estate at death (van der Hoeven).

SWOT Analysis

Strengths

“The farm family has a deep emotional attachment to the operation and the land” (Jonovic and Messick 2). There comes a time in every business owner’s life when they have to face the issue of retirement and succession, and there is often a strong desire for the farm owner-operator to keep the business within the family. Intra-family

succession carries with it many advantages.

In all family businesses, but in agriculture in particular, there is often tacit knowledge of the business that is passed on to the next generation. Children grow up around the business, on the farm, and are exposed to the details of the operation almost from birth. They hear their parents discuss the ins and outs on a consistent basis. Often, the children are assigned tasks associated with the business at an early age and spend much of their youth working on the family farm. The successive generation benefits from early training and monitoring. This experience leads to the development of human capital specific to the enterprise. That is, children that grow up on the farm are endowed with tacit knowledge of farming. This knowledge and experience can serve as a tremendous advantage in ensuring the continued success of the business as they succeed their parents as owner-operators. Business strategy for the family farm can cumulatively build on the core competencies of the operation.

Another advantage to the family farm is that there is goal alignment. The goals of the family align with the goals of the business. Agency theory suggests that when the owner is not the manager, an agency problem arises where the goals of the manager do not always match the goals of the owner. In the case of the family farm, the owners are the managers and an agency conflict does not arise. An example of a possible agency conflict on a farm is: if the manager is compensated based on annual yields, then the manager will pursue high yields even if it is not in the long-term interest of the farm. For instance, if the manager does not utilize

farming practices such as field rotation that would prevent erosion and loss of soil nutrients in order to produce higher yields in the short-term, then the long-term effects of his practices adversely affect the ability of the land to continue to produce high yields for the next generation of owners. The family is the ideal organization because the owner-operator will likely make decisions in the interest of family for the long-term since their goal is to provide for the long-term well being of the family.

The family farm also provides for a flexible work environment. If one member of the family falls ill or is injured another family member might be able to pick up the slack while the other heals. Intimate knowledge of family members' strengths and weaknesses also means that a family run operation might achieve a higher level of efficiency, because work can be better organized to play these differences to the advantage of the business. A close family relationship is developed through the interdependence of both work and home, and this provides opportunities for growth and development. Farmers tend to pass on a great work ethic to the next generation. Role modeling that occurs while working on the farm can also provide the opportunity for growth and development. Employees of a family farm might be able to communicate with each other better than employees of a non-family farm. Better communication generally leads to better decisions. It is no wonder that the family farmer develops such deep emotional attachment to a life of farming.

Weaknesses

In contrast to the advantages of a family farm, there are also some disadvantages. One inherent

disadvantage is the inability to separate business and family. Conflicts within the family can easily spill over to the business and adversely affect operations. And likewise, frustrations from business operations can lead to family conflicts and disputes. Such conflict can lead to a break-down in communication, and further poor decisions. Conflicts can escalate to the point of ostracizing and excluding a vital member of the team.

Generational conflicts often plague the family farm because different generations have different values. One generation may have grown up during the Depression and have a particular attitude about borrowing money than the next generation. Differing perspectives on how the business should be conducted can lead to great strife if they are not appropriately through effective communication. Members of older generations often have trouble relinquishing control to the next generation, sometimes even after ownership has transferred. Younger generations can easily become entitled and expect to take over farm operations, when this might not be what is best for them, their parents, or the farm. Sibling rivalries can occur, especially when one child is chosen as a successor and others are not. Divorces and remarriages can also be a significant challenge to the family farm.

Another inherent disadvantage is the farming operation can get locked into inertia. Family business can fall into the trap of doing things the way they have always been done. This is not always in the best interest of the farm or the family. A family farming operation might be more resistant to making the changes necessary to meet changing market conditions, technologies, etc. than would a non-family operation.

Often the logical flaw is the assumption that this way has worked for my father and his father and his father before him, so it will work for me.

One problem that is especially apparent in a family farm is the ability to network and acquire resources outside the family. Part of this problem is due to the fact that farming operations often take place in rural settings with limited social networks. Also, with farming the value of the business is tied up in the assets. It can sometimes be almost impossible to equally divide the assets among several children. Another problem a family farm may have is the lack of a successor. The parents might desire to pass on a legacy but may be unable to have children or their children have no interest in farming and would rather pursue an alternative career path such as becoming an engineer, a lawyer, or a pilot (Allen).

Opportunities

Many opportunities are available to the family farm. Driving many of these opportunities are changing economic conditions. The peak of oil production and high oil prices has led to federal mandates for increased bio-fuels production. "In December President Bush signed a bipartisan energy bill that will dramatically support the industry while mandating 36 billion gallons of bio-fuel by 2022. This will provide a huge boost to grain markets" (Grunwald 44). Global food demands and commodity prices are at their highest levels in history. The prices of wheat, soybeans, rice, and corn have all risen significantly. This presents family farmers producing these commodities with the opportunity to see high returns. The higher commodity prices means that consumers' food prices are also higher.

“Energy prices are up 8.6% ... food prices are up an unadjusted 5.3%” (Gutierrez 1). High energy prices combined with high food prices along with the Federal Reserve Board lowering interest rates in the wake of the sub-prime mortgage lending crisis of 2007 has led to inflation. “Overall inflation is up an unadjusted 4%” (Gutierrez 1).

Inflation combined with favorable tax policies for farms presents a tremendous opportunity for sustained success of the family farm. Inflation generates the expectation that asset values will grow over time. Land prices have continued to rise recently. Since increases in assets are not taxed until the assets are sold and the gains are realized, taxpayers’ incentives to sell assets and incur a tax liability are reduced. Capital gain taxes combined with estate tax exemptions and the one year repeal compound the incentive to hold on to assets until death. This limits the amount of farmland available for purchase, and provides a barrier for the entry of new competitors. This also provides plenty of incentive to keep the family farm in the family as an investment for heirs. Perhaps the most promising opportunity presented by current regulations is the opportunity to effectively plan for the future stability of one’s family through the family farm.

THREATS

Economic conditions also present some threats to certain family farms. Livestock farms that depend on feed have seen production costs increase with grain prices. “Increased production costs, especially high feed and fuel expenses, have really changed the economics of the dairy sector, to the point where they are pressuring some producers out of the business” (Rural

Cooperatives 36). The price of fertilizer is also very high due to the price of oil. High energy prices and fertilizer prices present a serious threat to farming operations. Changing economic conditions and regulations will require family farms to adapt to a rapidly changing environment.

Perhaps the biggest threat to the family farm is the complexity and uncertainty of succession planning. Death or disability combined with the absence of a plan to address these issues can lead to financial disaster. The sunset provision of EGTRRA and the uncertainty of what sort of regulations will follow present a tremendous challenge to the succession planning process. Due to the complexity of the situation, transactions costs for the transfer of assets and estate planning will be high. Nevertheless, it is an issue that family farms must address.

IMPLICATIONS

Family farmers “don’t plan to fail, but they can fail to plan.” The value of the farm is tied up in the assets. In order to maximize the value harvested from the farm, an effective succession plan must be developed. The most successful family farm businesses will maximize both pre-tax earning and after-tax earnings. A pro-active approach and effective communication involving family members is especially important. It is never too early to begin discussing these issues. The sooner the discussion begins the easier it will be to avoid frustrations in the future. The first step is to assess the current financial situation and explore family goals (Kohl and White).

If the financial situation does not appear to provide adequate retirement income, then the issue to be addressed is

to balance income and expenses to provide for an adequate retirement income. If the financial situation allows for a more than adequate source of retirement income, then some assets can be transferred while living and the remainder at the surviving spouses death to minimize or completely avoid a tax burden on the estate. An effective succession plan will include an estate plan and a retirement plan. If the farm can provide for an adequate retirement, then it must be determined if the farm can provide an adequate income for the successor. The future cash flows of the farm must be evaluated to determine if the successor will have enough cash on hand to continue the farm operations during and after the transfer of assets. If cash for operations is limited but the assets of the farm are of substantial value, then one option is to utilize a reverse mortgage to provide cash flows for operation. The succession plan must determine who will be the successor, and if they are committed, capable, and ready. It is very important that the successor be chosen wisely and that the successor is prepared for the task when it comes time to take the reigns.

Will continuing the business provide for fair treatment to heirs? If not then perhaps it would be best that the business be sold as an ongoing enterprise or liquidated. Another option is that the farm land, livestock, and equipment or any combination thereof can be leased. Leasing provides that could then be divided among heirs. Also, farm leasing can maintain benefits attained under certain federal commodity programs. The fair treatment of heirs is an issue where communication can prevent financially crippling conflicts. If the farm operation is to be continued, then what will be the inheritance to non-

successors? It also must be determined if valuing the assets under special use provision a feasible option. It may be the case that maintaining use of the assets is too risky of an option to pursue. It also may be the case that the special use provision is not even necessary due to an absence of an estate tax as in 2010 or even that the value of the assets will not exceed the available exemptions or credits.

The difficulty of dividing the farm business has caused many family farms to incorporate, allowing for transfer of the assets in the form of shares of stock. This also allows for transfer of the assets to occur to capture estate exemption while still maintaining control of the operation. If there is only one heir, then this is probably not necessary. Gifting is another way to transfer assets while avoiding a tax burden. The lifetime gift exclusion is currently set at \$1 million, but there are annual limits on the gift amount. Married couples can double this benefit as well as the estate exemption benefit.

There are many other options for transferring assets to avoid or minimize the tax burden. If a special use provision is not prudent and it appears that the assets will be subject to some estate tax, then the option of purchasing a life insurance policy funded by an irrevocable life insurance trust could potentially circumvent the estate tax burden. The benefits of such a policy paid at death are tax free. The downside to this option is the cost of establishing the trust to fund the policy and relinquishing control over the policy. In order for the benefits to qualify for exclusion from the estate, premium payments can not be made to the policy directly but only by gifting the premium payments to the trust. The trust normally

is under control by a spouse or a trusted family member or friend in the case of a second-to-die policy or if single. However, for most family farms this option is not necessary. An option that has a capital gains advantage in reducing the tax burden is an installment sale. This freezes the value of the asset at the value of the note, so that any appreciation on the value of the asset escapes estate taxes (Runde and Zischang).

Disability insurance is another option that should be considered in estate planning. If income taxes are paid on the premiums, then the benefit will be tax free. To assist in making these decisions it is recommended that a transfer management team be assembled to include an accountant, an attorney, a financial planner, and possibly an underwriter of life insurance and a lender. Any formal contracts or

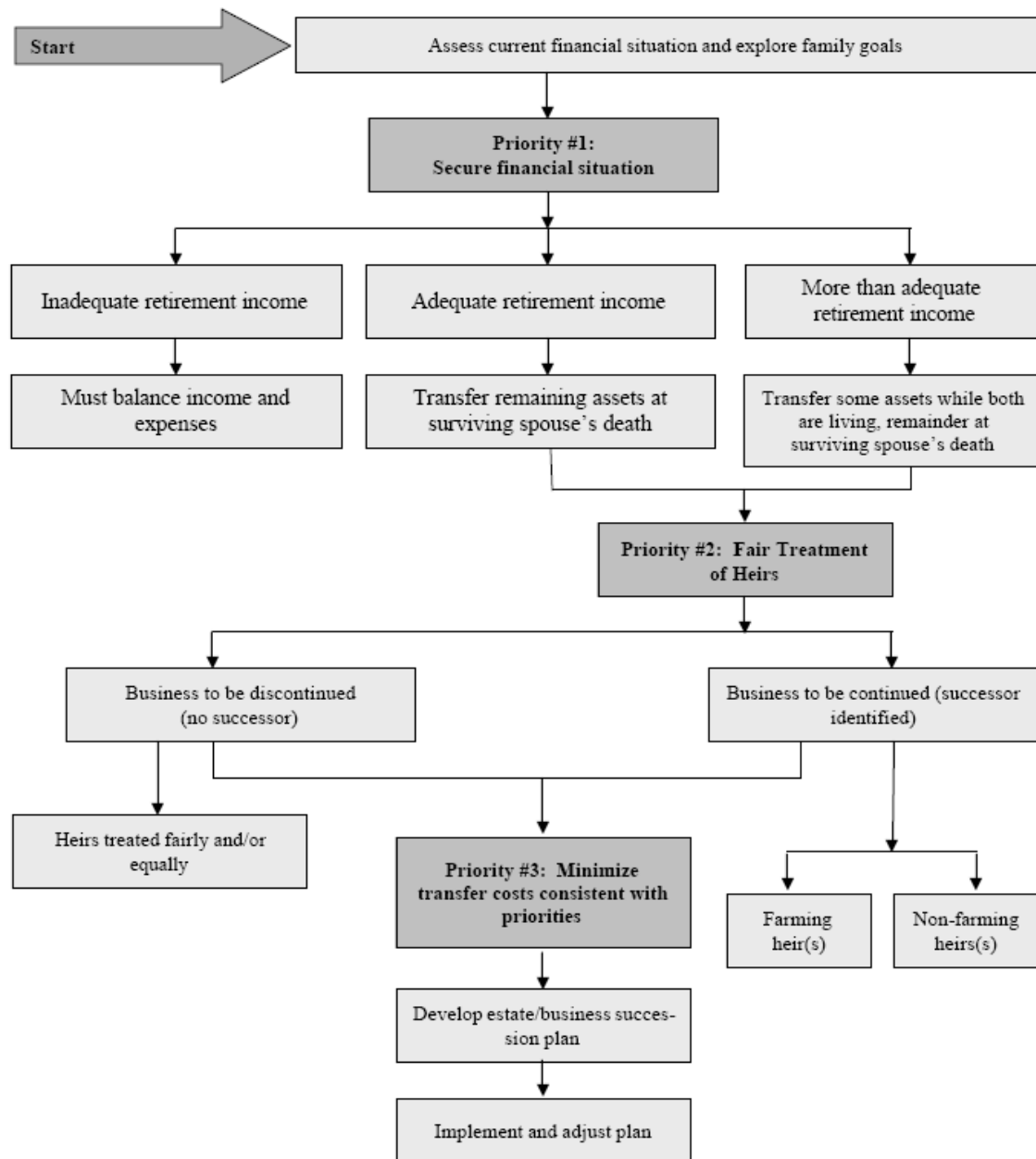
agreements established in the retirement and estate planning process should be reviewed by an appropriate professional in order to prevent costly errors resulting from a poorly formed agreement or contract. The succession planning process is a continuous one that requires monitoring and adjustment on a regular basis to keep up with changing conditions and regulations. A new successor should begin planning their own succession as soon as they take control.

CONCLUSION

As was indicated in the preceding implications, each family farm should follow the provided Succession Planning Flow Chart to start their individual succession planning. It is important to have completed a S.W.O.T. analysis to make this process work.

Succession Planning Flow Chart

(Adapted from *Business Management for Farmers: Planning the Late-career, Retirement-mode Years*, Midwest Plan Service, 2003)



Source: Kohl and White, *Planning the Future of Your Farm Workbook*.

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TRUST AS A DETERMINANT OF PREFERENCE TO BE A TENANT IN A BUSINESS INCUBATOR: A STUDY IN TURKISH INCUBATORS

Semra Ascigil, Middle East Technical University
Nace Magner Western Kentucky University

The improvement efforts of business incubators, with an emphasis on small business generation, have been among the policies with priority for many governments. The circumstances under which new businesses flourish and succeed are vital and have been the topic of much research. It has been argued that incubators help nurture entrepreneurs through the infrastructure and the sheltered environment they provide (Bollingtoft and Ulhoi, 2003). Incubators have recently been viewed as a process rather than an estate or place (Hackett and Dilts, 2004), which implies a role for their management beyond real estate management. In helping SMEs' (small and medium enterprises') survival and growth, incubator management's role is quite critical and has enormous influence over entrepreneurs' mission and operational procedures. However, simply locating businesses in an incubator does not assure success (Lumpkin and Ireland, 1988).

Recently, scholars (e.g., Thompson and Downing) have argued that the roles of incubators are not fully understood as long as their function as facilitators of networking among tenants is ignored. Networking outside the firm has the potential to promote business interests through the acquisition and exchange of resources (Garnsey, 1998; Pfeffer and Salancik, 1978; Starr and McMillan, 1990), as well as by increasing business opportunities. Emphasizing the importance of

networks, entrepreneurship has recently been conceived of as a social process whereby networks and networking contribute to an entrepreneur's capacity via opportunity creation. Birley (1985) argues that it is important to understand the networks in which entrepreneurs are embedded in order to fully understand entrepreneurship. Networks are essential for the entrepreneurship process to extend individual assets (Anderson and Miller, 2003; Jack and Anderson, 2002; Huggins, 2000). The entrepreneurial process can be driven by a unique entity, the incubator, which is a new phenomenon in many countries (Van de Ven and Poole, 1995). Despite the fact that the networking facilitated by incubators is consistent with the current view of the entrepreneurial process, the literature has rarely considered the conditions under which entrepreneurs seek membership in an incubator. The current study seeks to address this gap in the literature by providing insight on the relationship between trust and SMEs' willingness to be part of an incubator team.

Entrepreneurial character has been defined by locus of control, need for independence, need for achievement, and risk taking (Hisrich and Peters, 1998). Locus of control refers to the sense of having control over developments in one's environment (e.g., whether to start a business alone or within a group of entrepreneurs), need for independence is the personal need for

not being under the supervision of others, need for achievement is the desire for personal achievement and recognition, and risk taking is taking calculated risks with full knowledge of consequences. Although a focus on personal characteristics is criticized for failing to recognize the importance of trust-related issues during entrepreneurial activities (Bollingtoft and Ulhoi, 2003), these characteristics have consequences for entrepreneurs' decisions regarding starting a business as well as for leveraging entrepreneurial talent.

All of the above characteristics of entrepreneurial character influence the preference to start business in an incubator. An incubator is an organization where, beyond obtaining access to office space and other physical resources, entrepreneurs find themselves in a network of relationships. Entrepreneurs' desire to be their own boss and their desire for independence may appear to be in conflict with joining an incubator. However, membership may be a means to benefit from network opportunities as well as to obtain knowledge relevant to successful operation of the SME, thus enabling more achievement that brings greater independence for the entrepreneur. In order to benefit from the network environment offered in the incubator, entrepreneurs need to overcome psychological limitations created by inherently assumed desires such as "control" or "independence."

In sum, the potential benefits of membership in an incubator are manifold, including reduction of transaction costs and increased chances for learning and skill development that may accelerate graduation rates in incubators. The choice to engage in

collaborative activities with other firms in an incubator requires trusting relations. However, trust is another calculated risk an entrepreneur takes. In light of this logic, one can argue that the decision to be a member of an incubator involves a calculus done among different aspects of entrepreneurial needs.

Social character (beliefs, values, mission) has been emphasized as important for entrepreneurial success (McClelland, 1961; Thompson and Downing, 2007). Some scholars have argued that the attributes that relate to successful entrepreneurs can be acquired by learning (Deakins, 1996). Aspects of social character influence the way that entrepreneurs establish and run their businesses. Possession of an entrepreneurial character is nurtured by felt trust towards various parties like incubation management, incubator tenant firms, and the institutional environment. Exploitation of these networks may be facilitated if trusting relationships exist. However, little is known about the role of trust as a factor influencing an entrepreneur's decision to locate a new venture within an incubator.

TRUST AND PREFERENCE TO BE IN THE INCUBATOR

Incubators are increasingly viewed as having an evolving role in the development of small business. Although a few studies have indicated that tenants have pessimistic views of starting business in an incubator or that incubators are not effective (Allen and Kahman, 1985; Roper, 1999), there is a general research consensus that incubators play a supportive role. Incubator effectiveness has been studied with regard to provision of various shared services (Allen and Kahman,

1985; Smilor, 1987), survival and graduation rates (Allen, 1985; Campell *et al.*, 1988), and reduced transaction costs through the reduction of resource and information costs (Williamson, 1994).

The literature on entrepreneurial teams brought a different perspective to the study of new ventures (Gartner *et al.*, 1994; Shepherd and Kruger, 2002; Song *et al.*, 2008), emphasizing those individuals whose involvement in the new venture is plural rather than singular. This literature also underlined the fact that the membership of entrepreneurial teams is not static (West, 2007) and that each new member can inject new ideas that will increase chances for growth and survival. Despite this pluralistic perspective, there has been no previous attempt to examine the potential contribution of incubators to the concept of entrepreneurial teams. Incubators, which are the focus of the current study, are in a way expanding the founding team concept by forming networks among tenant firms and incubator management. Therefore the *willingness of member firms to be part of the incubator team* reflects the potential that entrepreneurs have in developing a unified cognition of other firms in the incubator and the potential to create a synergistic effect.

Similarly, little research has pointed toward trust as a major contribution of incubators. Structures created by incubators are recently invented forms of inter-organizational networks. Trust functions as a glue keeping network members together (Anderson and Jack, 2002) and successful businessmen are defined as those who are more likely to build networks of trust (Aldrich, 2000 p. 17). In this context incubators are likely to be

either places or processes (depending on which perspective is adopted) that facilitate the building of networks of trust.

Trust in the workplace has been shown to have a strong and robust influence on a variety of organizational phenomena, including legitimacy, job satisfaction, productivity, knowledge sharing, and normative and continuance commitment (Ozga, 2005). Mayer *et al.* (1995) define trust as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that the other party” (p. 712).

Abrams *et al.* (2003) suggests that trust leads to increased overall knowledge exchange and makes knowledge exchange less costly. In the context of network relations among firms, inter-organizational trust is defined as “a company’s belief that another company will act to generate positive outcomes, and also not act in a way to generate unexpected negative outcomes for the company” (Anderson and Narus, 1986, p.). Incubators are places (processes) where (during which) tenant firms are expected to engage in network relationships for learning and skill utilization. Compared to the marketplace, where actors are unfamiliar with one another, incubators facilitate trust building activities that are escalated by proximity to develop networks with relative ease. Trust based network relationships also assist SMEs in earning legitimacy in the market (Aldrich, 2000; Welter and Smallbone, 2006), making them vital in all stages of small business development. The conditions created by trust are likely to enhance firms’ satisfaction from being part of the

network. Thus the sheltered environment provided by incubators is a harbor to which SMEs turn not only to be protected from opportunistic behavior of other firms in the market, but also to enhance learning opportunities. Eventually, the trust generated will increase confidence in self and business as well as increase productive networking with peer companies.

Trust may reduce the need for control mechanisms to sanction opportunistic behavior. Mayer *et al.* (1995) proposed that there are three factors that determine the existence of trust: ability, benevolence, and integrity. According to Bell *et al.* (2002), ability is the collection of skills and competencies that enable a party to influence another party in some specific area. In the context of the relationship between incubator tenant firms and incubator management, management's managerial abilities are a primary concern to tenants and a determinant of trust. Benevolence requires that incubator management adopt policies for the caring and support of tenants. Integrity increases whenever both incubator management and tenants follow a set of policies that is acceptable to each of the individual firms. Brunetto and Farr-Wharton (2007) found a moderating role of trust in SME owners' and managers' decisions to engage in collaborative activities. We therefore posit:

Hypothesis 1: The willingness to be a member of the incubator increases with increased trust in tenants.

Hypothesis 2: The willingness to be a member of the incubator increases with increased trust in incubator management.

Information as well as skill-related constraints are the major reasons why entrepreneurs seek to develop networks via incubator membership.

Contextual factors like shared language and shared vision are precursors of trust in the incubator. In addition to internal factors, external factors such as institutional trust may also influence SMEs' willingness to be in the incubator. According to Aldrich (1990), institutional environment defines, creates, and limits entrepreneurial opportunities for new businesses. Most relevant to the current study, Townsend and Hart (2008) recently argued that perceptions with regard to institutional environment affect the choice of organizational forms. Therefore, incubator membership, which represents participation in forms of networked structures in early stages of development, is more likely to be valued when there is trust in the institutional environment. The entrepreneurship process is affected by both institutional and personal trust (Williamson, 1993; Welter and Smallbone, 2006), the former of which is a prerequisite for efficient working of the market system and captures trust felt in organizations, sanctioning mechanisms, informal codes of conduct, and shared values (Welter and Smallbone, 2006). A trustworthy institutional environment is one in which "processes and obligations take on a rule like status in social thought and action" (Meyer and Rowan, 1977, p. 341). Any uncertainty with regard to trustworthiness of the institutional environment creates ambiguities in entrepreneurs' minds influencing their choices of whether to locate their companies within incubators. Thus, Hypothesis 3: Willingness to be a member of the incubator increases with increased institutional trust.

METHOD

Data were gathered with a questionnaire completed by 52 owners or non-owner managers of companies that were tenants of one of five incubators located in five different cities in Turkey. These incubators stemmed from a project launched in 2000 by the State Privatization Office of the Turkish Republic to provide business development support to people who had become unemployed either directly or indirectly as a result of the state's privatization initiatives. Most of the incubators are composed primarily of small commercial craft companies, although one incubator houses a substantial number of computer software companies.

We sent a packet of questionnaires to the manager of each incubator, who then distributed a questionnaire to each of the incubator's tenant companies. Respondents, who were promised anonymity, returned their questionnaire in a sealed envelope to the incubator manager, who sent the sealed envelopes back to us. Questionnaires were returned by 59 respondents. However, 7 respondents did not provide data for one or more of the questionnaire items of interest and were eliminated from the study, resulting in 52 final respondents. Most of the respondents retained in the study were male (85%) and were owners of their company (91%). The average company had 8 employees.

Measures of Primary Variables

"Trust in incubator management" was measured by six items adapted from Crook and Wall's (1980) scale, which was later used by Kiffin-Petersen and Kordery (2003). Items on the trust in management scale were: Incubator

management seems to be doing an efficient job; incubator management can be trusted to make sensible decisions for the company's future; I feel quite confident that the incubator management will always treat me fairly; incubator management is sincere in its attempts to meet the tenants' point of view; our incubator has a poor future unless it can attract better managers (reverse-scored); and incubator management would be quite prepared to gain advantage by deceiving the tenants (reverse-scored). The items were summed and averaged.

"Trust in tenants" and "institutional trust" were each measured with items adapted from Rotter's (1967, 1971) Interpersonal Trust Scale, which was later used by Kiffin-Petersen and Kordery (2003). The four items measuring trust in tenants were: In these competitive times, one has to be alert or other tenants are likely to take advantage of you; most people would be horrified if they knew how much the news that the tenants hear and see is distorted; in dealing with other tenants, one is better off to be cautious until they have provided evidence they are trustworthy; and it is safe to believe that in spite of what other tenants say, most of them are primarily interested in their own welfare. All four items were reverse-scored.

Institutional trust was measured by the following four items: most repairpersons will not overcharge, even if they think you are ignorant of their specialty; most elected public officials are really sincere in their campaign promises; most salespeople are honest in describing their products; and the justice system is a place where we can all get unbiased treatment. The items on each of the two scales were summed and averaged.

"Willingness to be an incubator member" was measured with five items

adapted from a scale used by Kiffin-Petersen and Kordery (2003). The items were: I generally prefer to operate as part of the incubator; I am eager to be working with other firms in the incubator; I find that working as a member of an incubator increases my ability to perform effectively; I feel that, if given a choice, I would prefer to stay in the incubator rather than being alone outside; and I support being in an incubator in starting a company. Items on the scale were summed and averaged.

Control Variables

Four variables – the incubator to which the respondent's company belonged, gender of the respondent, firm

size, and position of the respondent (owner or non-owner manager) – were included in the analysis as control variables due to their possible effect on the relationship between the three trust variables and willingness to be an incubator member.

ANALYSIS AND RESULTS

Descriptive Statistics, Correlations, and Reliabilities

Table 1 presents means, standard deviations, alpha internal reliability coefficients and Pearson bivariate correlations for the eight variables in the study. The alpha coefficients are included in Table 1 next to the related variables.

Table 1 – Means, Standard Deviations, Correlations, and Reliabilities

Variable (Alpha coeff.)	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8
1. Incubator	–	–	–							
2. Gender	–	–	-.09	–						
3. Size	–	–		.02	–					
4. Position	–	–	.25*	-.20	-.03	–				
5. Institutional Trust (.66)	3.29	0.96	.07	-.18	.11	.08	–			
6. Trust in Tenants (.73)	3.29	1.04	.01	.12	-.07	-.19	.05	–		
7. Trust in Management (.84)	4.90	0.91	-.17	–	.03	.01	.17	.24*	–	
8. Willingness to be in Incubator (.91)	4.76	0.86	.03	.26*	.06	.36*	.33*	–	.48*	–
				.27*		*	*	.24*	**	

Note. Alpha reliability coefficients for multiple-item scales are shown in parentheses.

* $p < .05$, two-tailed. ** $p < .01$, two-tailed. *** $p < .001$, two-tailed. $N=52$

Hypothesis Testing

The hypotheses were tested with two-step hierarchical regression analysis, with the control variables and trust variables as predictors of willingness to be an incubator member. At step 1, willingness to be an incubator member was regressed on the four control

variables. At step 2, the three trust variables were added as a block to the regression model. Table 2 displays the results of the hierarchical regression analysis. The beta coefficients, or standardized regression coefficients, represent the strength of the unique relationship between a predictor variable

and willingness to be an incubator member after controlling for the effects of the other predictor variables in the regression model. The R^2 statistics

represent the amount of variation in willingness to be an incubator member that is explained by all the predictor variables in the regression model.

Table 2 – Summary of Hierarchical Regression Analysis for Control Variables and Trust Variables Predicting Willingness to be a Member in the Incubator

Predictor variable	β coefficients and R^2 statistics
Step 1: Control variables	
Incubator	-.07
Gender	-.21
Size	.09
Position	.33*
R^2	.18
Step 2: Add trust variables	
Institutional Trust	.23*
Trust in Tenants	-.33**
Trust in Management	.53***
Δ in R^2	.32***
R^2	.50***

Note. β coefficients are standardized regression coefficients.

* $p < .05$. ** $p < .01$. *** $p < .001$.

At step 1, the control variables as a group did not explain a significant amount of the variation in willingness to be an incubator member. Among the control variables only position had a significant ($p < .05$) unique relationship with willingness to be an incubator member.

At step 2, the addition of the group of trust variables brought about a significant ($p < .001$) increase in the amount of variation explained in willingness to be an incubator member beyond that explained by the control variables. Trust in tenants had a significant unique relationship with willingness to be an incubator member ($p < .01$). However, the relationship was negative. This result fails to support H1,

which proposed a positive relationship between trust in tenants and willingness to be an incubator member. Trust in incubator management had a significant ($p < .001$) and positive unique relationship with willingness to be an incubator member, which supports H2. Institutional trust also had a significant ($p < .05$) and positive unique relationship with willingness to be an incubator member, which supports H3.

DISCUSSION

Incubators are defined as places or, more recently, as processes that create the environment necessary for SMEs to grow. The results of this study indicate that institutional trust and trust in incubator management are important factors in enhancing entrepreneur's

willingness to place their SMEs in an incubator.

Our finding that willingness to be a tenant in the incubator is negatively associated with trust in the other incubator tenant companies was unexpected given that we posited a positive relationship between the variables. Incubators shelter small firms from opportunistic relations predominant in the market. According to Ouchi (1979), the market mechanism that is based on pursuit of short term objectives cannot be a mechanism that fosters trust and collaboration. It appears that other tenants may not be perceived any differently with regard to opportunism than firms outside the incubator. In support of this assertion, Akçomak and Taymaz (2004), in their study of incubators in Turkey, reported that tenants fear “plagiarism” of their projects by other tenants and are concerned that their employees may defect to other tenants.

Trusting relationships consume resources and evolve over a relatively long time frame. Since tenants stay in an incubator for only a few years before graduation, they may not have enough time to develop trusting relations with other tenants. In fact, lack of trust may be the very reason for joining an incubator. The “sheltered environment” of an incubator may imply protection from the opportunistic behavior that is a characteristic of the market. Research in conflict management among Turkish managers (Kozan and Ergin, 1998; 1999) revealed that they prefer to settle disputes through a third party rather than face to face confrontation. The authors attributed higher third party involvement to a collectivistic culture. Hofstede’s (1990) work on national cultures identified collectivism, avoidance from

ambiguity, and high power distance as central characteristics of Turkish culture. Mueller and Thomas (2000) found that collectivism and uncertainty avoidance are negatively related to traits such as locus of control, risk taking, and innovativeness that are commonly associated with entrepreneurship.

The negative relationship between willingness to be an incubator member and trust in tenants may be explainable in terms of these findings. Entrepreneurs may expect incubator management to play the role of a third party whose judgment and intervention can be sought in case of conflict. This situation may be why relatively higher trust is assigned to incubator management than to tenants and the institutional environment. The willingness to locate a new business in an incubator may be contingent on entrepreneurs’ perceptions that management can develop a structure with the potential to ensure justice in resource acquisition, create stakeholder alignment, and foster caring about the future of firms.

How incubator management is viewed by entrepreneurs may play an important role in our unexpected result. Kozan and Ergin (1999b) found that responses to third party intervention in conflict management may change depending on whether the third party is a peer or a superior. Avoidance of ambiguity as a cultural trait implies that people with the same status are not trusted because equality increases ambiguity in relations with others. Instead, bureaucratic rules or hierarchy are preferred to resolve conflicts. A similar phenomenon may also occur in a high power distance culture. While tenants in an incubator normally hold equal status, their perceptions of the

status of incubator management may vary. Paternalistic expectations (Aycan *et al.*, 2000) typical of Turkish culture may also be present in the relations between incubator management and tenants. In cases where management is perceived to hold a superior status, it may be expected to play the role of a superior who is at the same time neutral. This situation eliminates ambiguity created by dealing with peers of the same status and may be perceived to be more secure. However, considering the vital role played by the information provided through network relations, new firms may desire to locate their firms within incubators instead of trying to form networks outside the incubator that lack the assurance of a third party in case of disputes. Therefore, in the absence of trust in peer companies, engaging in network relations within an incubator environment is preferred since a reliable and neutral third party is always available. Lack of trust in other tenants may be the very reason why new businesses seek participation in incubators. Future incubator research might incorporate a variable addressing whether incubator management is viewed in a superior or peer role.

Institutional trust implies assurance of rules of social interaction that are entrenched in the sense that alternative forms of behavior will be costly (Lawrence *et al.*, 2002). When institutional trust is not strong in a culture, which is the case in Turkey, new organizational structures may be viewed with suspicion. Although Turkey has established free market institutions along with a sophisticated legal infrastructure for the purpose of European Union accession, they are not yet completely entrenched in daily practice. For example, Kabasakal and Bodur (2007)

found that middle managers from firms in the financial and food processing sectors viewed the market and regulatory environment in Turkey as very unpredictable. Under such circumstances, starting a new business is an undertaking that many potential entrepreneurs will avoid. A major implication of this research is that incubator management must adopt a role of building trusting relations. This can be achieved in part through trust fostered by formal appeal mechanisms. Particular attention needs to be given to protecting tenants' intellectual property and reducing the defection of employees to other tenants, with the consequent leaking of inside information.

The current results should encourage incubator researchers to focus more intensely on the antecedents of trust among the parties involved in incubators. Also, details of the cognitions concerning incubator management as well as small businesses' choice of types of opportunities may shed light on why new firms prefer to establish within incubators. Also, the findings may inspire studies of entrepreneurial teams with more emphasis on new forms emergent in incubators and the nature of relations among incubator members.

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VALIDATING THE RELATIONSHIP OF LAW AND ENTREPRENEURSHIP: COMPELLING COMMENTARY AND PROGRAM DEVELOPMENT AS ENTREPRENEURSHIP BECOMES AN OFFERING AT LAW SCHOOLS ACROSS THE COUNTRY

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“An entrepreneur must be able to distinguish between the legal expertise offered and the bias that accompanies it.” (Goossen, 2004, p. 10)

ABSTRACT

At times the perspectives of the business, and that of their legal counsel, fail to align. This paper provides a justification for entrepreneurship education as a part of a law school curriculum and provides an overview of an entrepreneurship course designed specifically for law students. The purpose of the course is to provide perspective attorneys with an understanding of the decision-making process high growth ventures go through, and how counsel can best contribute to the venture. It incorporates the business planning process with heavy emphasis on legal issues at the time of company formation.

HISTORY

In October of 2006 the author approached the Dean of the School of Law about teaching a course that would expose aspiring attorneys to the decision-making of high growth ventures. It had become evident over many years of working with entrepreneurial startups that counsel approached that legal recommendations purely from a legal perspective, with little or no regard to the business impact of their recommendations. For example, a lotion startup company was advised to not make claims regarding product efficacy because the claim may run afoul of FDA guidelines. The problem is adhering to a strict interpretation of the law severely limited this very effective product's reach from everything from insect bites to bedsores. The challenge for the venture is twofold: first, the FDA guideline is vague and open to interpretation, and second, and possibly most important, separate from ethical considerations, the industry has basically ignored the FDA guideline in this area and thus, the product's long list of competitors

advertises the claims. The venture took the ethical high road. Over the next year the company added an FDA approved active ingredient to the product and can now make the claims within the guidelines.

The meeting with the dean at the law school that day in October 2006 included the Dean and Associate Dean of the School of Law. What was outlined was a business planning course with greater emphasis on the legal implication. During the meeting the Dean on three occasions uttered, “I love it”. At that time, the Associate Dean was unaware of similar courses being taught at other Schools of Law. The following summer the course was offered to 11 law students. In 2008, 15 students enrolled and successfully completed the course.

Legal v. Entrepreneurial Thought

Historically, when lawyers are engaged to assist a business in settling differences with suppliers, customers, and employees they relied upon the legal process as the primary means to resolve disputes. An alternative would be a business focused approach,

which would address the dispute from the strategic objectives of the company. To employ the business focused approach, “an entrepreneur must understand and manage four components of the legal process - the law, the legal subculture, lawyers, and litigation. Managing the legal process is of greater concern to entrepreneurs than to other business operators. They have scarcer resources and a fragile administrative infrastructure that is less stable to withstand a significant drain on human or financial resources”. (Goossen, 2004, p. 3)

Goossen goes on to state, “Students of entrepreneurship accept the notion that there is an entrepreneurial mind or personality, and its values and norms constitute an entrepreneurial subculture. Similarly, there is a legal subculture. This is reflected in the objective of law schools to have their graduates “think like lawyers”. Because of the different subculture from which their perspectives emerge, lawyers and entrepreneurs have different ways of resolving issues. (Goossen, 2004, p. 5)

Goossen contends that, “Legal training focuses on what can go wrong rather than what will go wrong. This leads lawyers to see the negatives in a business transaction. Lawyers can see what can go wrong, while entrepreneurs think of all that can go right. This is a variation of the glass is half empty, glass is half full adage....

Entrepreneurs gain sustenance from the psychological disposition, while lawyers are rooted in the technical aspects of their skills.” (Goossen, 2004, p. 6)

It is also suggested that the lawyer is committed to completing the task, such as reviewing a contract to protect the rights of the client, rather than being concerned about whether the transaction has been consummated or not. The entrepreneur seeks a solution and the law only provides part of the problem solving equation. The nature of the legal profession fosters individuals who are

risk averse while entrepreneurs exist in an environment fraught with risk. (Goossen, 2004)

What Needs to Happen with Legal Education

According to the Ewing Marion Kauffman Foundation (2001), “Today, more than 1500 colleges and universities offer some form of entrepreneurship training... Interest in entrepreneurship education has spread to non-business disciplines, where students in engineering, like sciences and liberal arts are interested in becoming entrepreneurs.”

As entrepreneurs drive innovation in business practice and technology, they also drive changes in the practice of law.

Entrepreneurs often force questions about where legal boundaries are drawn, and provide opportunity’s to set new boundaries through interpretation and legislation.

(entrepreneurship.gmu.edu/law)

Entrepreneurship studies and research are of relatively recent vintage, and they have been confined to business schools and economics and engineering departments. To date we have not used entrepreneurship adequately in our study of the law. As a result, when entrepreneurship scholars think about law in connection with the entrepreneurship, they usually think about patents or trademarks, but this is too narrow in light of the rule of law. (Smith, November 16, 2003)

In the 1991 the British law firm of Berwin Leighton introduced a novel opportunity for law students to prove their potential and develop their teamwork and decision-making skills. The program entitled “Boardroom Blitz” assembles a team that assumes control of a fictional company and steers it toward profitability. The program, designed for second year law students, is an attempt to create strategic decision-making skills in the lawyer of the future. (The Lawyer, 1997)

Siers (1998) suggests that the commercial or transactional side of the legal profession needs less risk-averse and more entrepreneurial and more mobile trainees who are prepared to see the law as a practical tool to achieve commercial ends rather than treating it as an academic exercise. She also suggests the aspiring attorneys should demonstrate evidence of commercial acumen or general business awareness.

Triantafillou (2008), in addressing the overall curriculum at law schools, speaks of significant change and paradigm shifts to create new ways for lawyers to think outside of the box. She then points out an interesting observation, that as new curriculum may be developed it will be delivered by the same existing faculty.

Hines (2005) proposes, "Entrepreneurship is a legitimate area of scholarly inquiry and a curricular opponent that need not be limited to certain departments or schools or colleges of business". And then goes on to state, "a liberal arts education might be viewed as a metaphor for entrepreneurship".

While much entrepreneurship research focuses on the characteristics of entrepreneurs or on performance of entrepreneurial firms, law and entrepreneurship studies should focus on the legal structure and regulation of entrepreneurial firms. Many entrepreneurship scholars emphasize the importance of organization to the study of entrepreneurship. (Smith, November 6, 2006) Smith goes on to say, "The study of entrepreneurship in law schools is primitive." (Smith, July, 17, 2008)

Michael J. Kelly, dean of the University of Maryland School of law said the goal is to produce lawyers "who know what's involved in helping young companies to merge and mature. It makes sense from an educational standpoint to educate a generation of lawyers with an understanding

of the special problems of startup companies" (Washington Times, 1989). The Geoffrey H. Palmer Center for Entrepreneurship and Law at Pepperdine University recognizes that law students seek alternative careers and require education and training in the fields such as business, finance, intellectual property, technology and others. The reason needed to supplement the traditional law school curriculum even for students pursuing traditional legal careers. (law.pepperdine.edu/palmer)

Validating the Relationship of Law and Entrepreneurship: Progress

Recently a number of universities' entrepreneurship programs have struck up relationships with their corresponding schools of law. A few examples are as follows:

University of Arizona

The University of Arizona has in place a mock law firm which allows law students to engage with Mason level firms from the earliest business development phase through innovation exploration and actual venture planning, development, funding applications, and launch. The program lists a series of key goals. First for the law students (University of Arizona, 2008):

- Law students gain practical experience counseling clients involved in simulated startup ventures
- Law students learn how to apply their legal skills and knowledge in a context that requires them to integrate their knowledge from several areas of law
- Law students develop the substantive legal and business

knowledge and skills needed to work with entrepreneurs in startup companies, possibly including when to take an equity stake in lieu of traditional payment

And for the entrepreneurship students (University of Arizona, 2008):

- Entrepreneurship students learn how to engage the legal community throughout all stages of venture planning
- Entrepreneurship students learn, and legal issues/elements of new ventures, including basics of IP, early in the venture planning life
- Entrepreneurship students are positioned to plan for IP and other relevant legal issues alongside all other elements of the venture plan

University of Oregon

The University of Oregon hosts three programs associated with law and entrepreneurship. The program professes “educating lawyers to create value for business” and offers you three distinct programs, and the small business clinic (SBC), the technology entrepreneurship program (TEP), and the law and entrepreneurship student association (LESA). The small business clinic is a community-based outreach program, while the TEP, in collaboration with the business school’s Lundquist Center for Entrepreneurship, combines the talents of MBA and law students to develop market assessments on emerging technologies. Portions of this

program began as early as 1995 and are initiated out of the school of law, Center for Law and Entrepreneurship. (University of Oregon, 2008)

University of North Carolina

The Cato Research and Cato BioVentures established a wall and entrepreneurship program in collaboration with the University of North Carolina at Chapel Hill law school in October of 2006. Cato Research is a leading international pharmaceutical research organization with an affiliated venture capital group. The program they developed is intended to provide law students within opportunity’s to gain hands on legal experience in the areas of corporate law, the Life Sciences, and venture capital. Through this practical experience, students will gain valuable skills in areas such as negotiation, contracts, intellectual property, and corporate governance. (Cato, 2006)

The Course

Traditional teaching methods, such as lectures and examinations, are not the most effective means of encouraging entrepreneurial skills set development. (Gibb, 2002; Sogunro, 2004) In entrepreneurial learning, traditional teaching methods need to complemented (Gibb, 1993; 1996; 2002) by activities such as learning by doing and engaging students in active learning or that participate in the control and mold the learning situation (Gorman et al, 1997; Fiet, 2000).

The course at our law school is designed like most business planning courses where the class is split into teams. There are a number of ways to create teams, random, complimentary backgrounds, outside work schedule, but in this setting, they self select. The first day of class a short interactive lecture helps the students differentiate from

hobby, lifestyle, and small businesses and begin their focus upon high-growth ventures – those growing at an annual rate of 20% or more per year, creating above average wage positions and the need for a venture team. Once the teams form, we go into great depth on factors that can contribute to disproportionate distribution of initial stockownership. This is a critical topic, frequently not covered in traditional business planning courses, but essential as aspiring counsel advises founders at the point of business formation. Some factors that can come into play include (Timmons, 2007):

- The idea
- Cash contribution
- Commitment to the execution of the plan
- Prior entrepreneurial experience
- Prior experience in the industry

The next area of discussion focuses upon intellectual property (“IP”). An IP attorney is invited into the class to highlight trademark, copyright, patent and trade secret issues faced by high growth startups. The students are required to perform a patent and trademark search surrounding their products/services.

Much of the course then proceeds through the sections of the business plan (Abrams, 2003):

- Industry Analysis
- Target Market
- Competitor Analysis
- Marketing Plan
- Operations Plan
- Critical Risks
- Etc.

The composition of the typical class is very much unlike the typical MBA class. Though some MBA programs have as few as 25% of

the class represented by undergraduate business majors (www.mba-courses.com/mba.htm), there tends to be an adequate smattering of business talent to help “carry” the other team members who may not have yet taken certain critical courses to excel across the spectrum of business disciplines necessary to construct a business plan. Of the 11 in year one there were two undergraduate accounting majors and two students, one of the accounting majors, enrolled in the joint MBA/JD degree program. In year two, of 15 students one was an undergraduate finance major and one marketing major. The rest of the class had English, journalism, sociology and even two biochemistry majors.

The point being, when the class gets to the financial assignment, many do not know how to build a spread sheet in excel. They tend to well outside their comfort level. Usually classes in the business school create spreadsheets in excel but at the law school they are allowed and encouraged to use templates.

Throughout the course emphasis is placed on legal issues including contractual relationships, negotiations with suppliers and manufacturers, lease agreements, marketing issues (much like the FDA concern discussed at the start of this paper) and many other legally-based venture concerns. The term sheet, the letter of intent between the investors and the venture, is also covered in some detail, with a venture capitalist participating in the discussion. The students turn in sections of the business plan incrementally throughout the course, receive feedback and make corrections or changes for submission of a final revised business plan at the conclusion of the course. The last day is reserved for presentations in front of a community-based panel. The panels’ skill sets range from current entrepreneurs to investors to business professionals.

OUTCOMES

Specific outcomes from the Law and Entrepreneurship course:

- The students gain a much greater understanding of the venture decision-making in light of perceived or actual legal constraints.
- A student letter of thanks to the faculty member highlighted the growing nature of the legal profession to participate as transactional representation for early-staged high-growth ventures. These ventures can prove to be high return clients if they grow and the legal relationship is nurtured. The student went on to say that the course provided tremendous insights into venture valuation, dilution and the term sheet. All of which were topics of discussion during his interview process. (Walker, 2007)
- A team from the 2007 class entered the 2008 Reynolds Governor's Cup Business Plan Competition and was selected along with 5 other teams to participate in the graduate competition. The team competed directly with MBA student teams from across Arkansas and though not finishing in the top three, were awarded \$1000.
- Members of that team continue to pursue the venture.

IMPLICATIONS

Courses like the one discussed above, and others, provide the necessary cross-perspective necessary to adequately represent a client in the world of high-growth ventures. The key is making the

aspiring attorney aware and sensitive to the needs of the client and not solely depend upon the historic "legal perspective" as discussed by Goossen (2004).

We are beginning to see cross compatible competencies, where academics bring entrepreneurial experience, law degrees and business degrees to bear on business students, law students, researchers, and others. Entrepreneurship has become a dynamic way of teaching the marketplace to all discipline areas of study. This is evidenced by the monumental efforts of organizations like the Kauffman Foundation Campuses Initiative (Kauffman, 2008).

CONCLUSION

A guest speaker for the course, Allen Engstrom (2008), CEO of CFO Networks and former head of strategic acquisitions for Intel, asked the class what is business? A number of answers were shared but none provided the answer Allen was looking for. He said business is nothing more than a series of contracts; contracts with suppliers, customers, employees and others. Attorneys deal with business related issues in almost every aspect of their practice from divorce settlements to estate planning. Should our aspiring practitioners have greater access to entrepreneurship education? Has the legal profession realized how business-oriented their legal practices have become?

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A PARTNERSHIP BETWEEN TEACHING AND LIBRARY FACULTY TO ENHANCE STUDENT MARKET RESEARCH ANALYSES

Diane K. Campbell, Rider University
Ron G. Cook, Rider University

DESCRIPTION:

For more than ten years, Dr. Ron G. Cook has been teaching a required introductory class for entrepreneurship majors. The main project for the class is a comprehensive market research analysis of a business idea. This course is designed to "learn by doing" and the goal is to give teams of students an understanding of how to screen their business idea's external environment, and identify the key issues that may make or break the concept. Dr. Cook has worked with the instruction librarians of Moore Library to develop research instruction and resources that allow students to analyze data, rather than spend long hours fruitlessly searching for it. During the semester, three full class periods are spent in the library which allows for an initial overview of possible sources, and then ongoing consultation by the business librarian. Each team is expected to spend individual time with the librarian to identify sources specific to their business idea or brainstorm methods of combining available information to answer key questions. The students experience the challenges inherent in researching and evaluating the data sources that are applied to their business ideas.

The partnership between Dr. Cook and the library faculty has helped shape the course curriculum by improving the quality of the research. This, in turn, has shaped the library instruction program by demanding a more sophisticated and specialized instruction. It has also helped in identifying those data sources that are needed to support the entrepreneurship major. For the students, it illustrates the role that the business librarian can have as a resource for industry, market and demographic

information. Over time, student project improvement has demonstrated to all constituencies the value of an information professional in saving time, effort and money when testing business ideas.

Implementation Steps: We will discuss the series of steps involved in creating this partnership. Initial steps include sharing the syllabus and course objectives; identifying and organizing appropriate resources; and defining the best schedule for deliverables. We will show how that led to sample library handouts, better assignment descriptions, and ultimately, better student projects being created in the program.

ADDING A COMMUNITY SERVICE LEARNING COMPONENT TO THE STRATEGIC MANAGEMENT CAPSTONE

Catherine Levitt, Golden Gate University
Cynthia Schriehans, California State University San Bernardino

The year was 2004. The moment was right. The California State University System had renewed interest in integrating Community Service Learning into a variety of curricula and the Community-University Partnership was willing to accept grant proposals from a wider variety of disciplines. The Palm Desert Campus was actively involved in a building project which required developing closer community relationships by identifying community needs. Dedicated faculty and administrators were interested and available. The California State University at San Bernardino-Palm Desert Campus has now used a Community Service Learning component in the teaching of the Strategic Management Capstone for the past 4 years. This presentation is intended to share both the success of this curricular change and the false steps that led to it.

Initially, a non-profit organization approached the university with a request for help in training employees and board members in business and strategic planning. The faculty member responsible for providing this training recognized the potential for developing an on-going relationship with the community organization through an integration of this training with the business plan component of the capstone course in Strategic Management, Mgmt 490. While this may seem obvious now, in 2004, service learning was seen to apply to social sciences and education...not business.

After experimenting with several iterations (over multiple terms and several instructors), a stable, easily executed format was found that includes both for-profit and not-for-

profit organizations. The impact of this addition has been enhancement of student commitment to the course learning objectives directly correlated to improved student learning outcomes, greater opportunities for student internships and career opportunities as well as strengthened Community-University Partnerships. Between January and August 2008, strategic issues analyses and/or business plans were completed for 46 firms, government agencies and non-profit organizations.

As a capstone course, Management 490, Strategic Management is intended to offer the student the opportunity demonstrate their ability to integrate all the functional disciplines they have studied as an undergraduate. Traditionally, this course has been taught with a significant emphasis on published corporate case studies and/or business plans for student chosen entrepreneurial opportunities. The use of the service learning context in place of a generic business planning exercise adds the dimension of a real world context which dramatically alters the students' perceived responsibility to respond in a timely and professional fashion. It also offers the students the opportunity to participate in the strategic process at a variety of stages of corporate or organizational life. The student groups are in a position to see that the way that a strategic issue is identified will influence the selection of analysis methods and that a given situation may include multiple strategic issues. Within a single class, the students will have the opportunity to meet 6-9 executives who will present their organizations for analysis and explain

their expectations. Student groups will select the organization with which they will work during the course. All students will have the opportunity to present and hear progress reports, offer suggestions to other groups and evaluate the final work product of all groups. This means that the class experience will include exposure to corporate, entrepreneurial, government and non profit strategy, expectations, and implementation issues. Since, there are no Google-available, hindsight based recommendations, the students learn to find other resources and see the value of the analyses techniques that they learned in finance, marketing, production. 69% of the students have followed the progress of their project firm for 1 or more quarters after the end of course. 54% of the students have received a letter of recommendation from their project organization. 23% of the students have been offered a job or an internship as a result of their participation. 81% of the students have reported spending 10-40% more time and effort on this course than on any previous course. 36% of the participating organizations have volunteered to participate in other university activities.

These results did not come without issues. The course planning process requires ongoing commitment from faculty to keep the mix of organizations and their issues appropriate to the course time constraints and the capabilities of student groups. The monitoring of both student work and the cooperation of the participating organization can be excessively time consuming. There can be variations in the scope and difficulty of projects which may concern department chairs if uniformity of course content across campus is a priority. The improvement in grades that results from deeper student commitment may not be understood or welcomed at a time when the university is plagued by grade inflation issues.

AN MS IN ORGANIZATIONAL LEADERSHIP WITH CONCENTRATIONS IN ENTREPRENEURSHIP, HEALTH CARE MANAGEMENT, AND MANAGEMENT

Shawn Carraher, Cameron University
John Courington, Cameron University
Frank Zittle, Cameron University

All organizations, whether military or civilian, profit or non-profit, public or private, small or large businesses, health, educational or religious, rely on leadership to accomplish their respective goals. With the advent of a more complex and global market, the need and demand for organizational leadership are accelerating. New technological, social, and political innovations are being unleashed at blinding rates of speed. Experts agree that these advances are causing a tidal wave of change, requiring organizations to continuously update and refine their approaches, structures and technologies to achieve ever greater levels of quality, effectiveness, efficiency and flexibility.

The Master's of Science in Organization Leadership program addresses these fundamental questions of transformation and change in organizations, and addresses the leadership required to facilitate those transformations. The program is designed to enable students to advance professionally by understanding more clearly what is happening in organizations and to develop practices that empower organizations to be successful. To meet the needs of professionals, the Organization Leadership Master's degree is offered in an accelerated online format that emphasizes experiential, collaborative and authentic learning.

The interdisciplinary framework of this program is designed for professionals in business, government, and non-profits to move into positions of increased responsibility in a variety of areas. Career

choices include organizational development, knowledge management, human resources management, information technology, business process design, organizational change management, and project management.

The Master's of Science in Organization Leadership program addresses fundamental questions of transformation and change in organizations and the required leadership needed to facilitate those transformations. The program is designed to enable students to advance professionally by understanding more clearly what is happening in organizations and to develop practices that empower organizations to be successful. To meet the needs of professionals, the Organization Leadership Master's degree is offered in an accelerated format [in online and/or on campus modes of delivery] that emphasizes experiential, collaborative and authentic learning through the application of the Small Business Institute® model. Students typically take 1-2 classes each 8 weeks and work on an SBI project in each course within the program.

The interdisciplinary framework is designed for the adult learner. Our typical students are professionals in business, military, government, and non-profits who are poised to move into positions of increased responsibility in a variety of areas. Career choices include organizational leadership, knowledge management, training and development, organizational change management, and project management.

The degree equips professionals with both knowledge and practices to act effectively in a world that requires networked, interactive ways of working, innovative approaches to managing work, and new concepts of leadership. A knowledgeable faculty connects theory and practice in a student-centered and collaborative program that provides a tightly integrated learning experience. Students are encouraged to learn from each other by sharing their considerable work and organizational experience, and they work as teams on projects to gain an understanding of how to develop dynamic organizational knowledge structures.

Program Description

The Master of Science in Organizational Leadership consists of a minimum of 33 semester hours of graduate credit in three parts: a core of 18 hours, possible specialization classes making up 12 to 15 hours, and a possible master's project/research paper class.

Students in the Master of Science in Organizational Leadership program must participate in Cameron's comprehensive outcomes assessment program that consists of entry-level placement, program outcomes assessment, and student satisfaction assessment. Participation in the assessment activities is required as a condition of enrollment and graduation. Students must complete either a written comprehensive examination or a written comprehensive research paper which is to be evaluated by three professors.

Program Objectives

The objective of the Master of Science in Organizational Leadership at Cameron is to prepare individuals to be leaders in military, health care, governmental, entrepreneurial, and corporate ventures as well as for further

graduate study. The objectives for the Master of Science in Organizational Leadership program are:

1. To provide a common body of knowledge at an advanced level about Organizational Behavior;
2. To provide a common body of knowledge at an advanced level about Leadership & Knowledge Management;
3. To provide a common body of knowledge at an advanced level of Training and Development and Human Resource Issues within Organizations
4. To provide a common body of knowledge at an advanced level about Strategic Knowledge and Change Management.
5. To provide a common body of knowledge at an advanced level about the communication of information from data for decision making purposes, and
6. To provide a common body of knowledge at an advanced level about Global Policy and Strategy.

MASTER OF SCIENCE IN ORGANIZATIONAL LEADERSHIP PROGRAM

The M.S. in Organizational Leadership student should take from 33 to 36 semester hours of approved graduate course work in satisfying course requirements for the degree. The exact number of required hours will be recommended by the Graduate Advisor following an evaluation of the student's previous academic course work. This recommendation is subject to the approval of the Office of Graduate Studies. Students must take 33 hours beyond the prerequisite courses. A previous graduate or undergraduate course in statistics is recommended.

The coursework for the M.S. in Organizational Leadership program consists of three parts.

Part I: Core Classes (18 hours)

MGMT 5703 Organizational Behavior
OLDR 5713 Leadership and Knowledge Management 286
MGMT 5723 Training & Development and Human Resources in the Organization
OLDR 5733 Strategic Knowledge and Change Management
OLDR 5743 Data-driven decision-making
MGMT 5803 Global Policy and Strategy

Part II: Electives/Concentration (12-15 hours)

Students could choose an area of specialization within the program by completing 12 hours of electives within a single discipline (Entrepreneurship, Health Care Management, or Management).

Part III: Capstone Research Paper (0 or 3 hours)

OLDR 5893 Master's Project/Research Paper

Comprehensive Examination

A Master of Science in Organizational Leadership degree will be awarded to all students who have (1) completed the required course work described above and (2) passed the comprehensive experience (OLDR 5893 with a B or better or the written comprehensive examination administered by the Cameron University School of Business).

Board of Advisors

M. Ronald Buckley, University of Oklahoma; Michael Harvey, University of Mississippi & Bond University; William J. Mea, Office of Management & Budget; John Parnell, University of North Carolina

at Pembroke; Major General [retired] Gerald Stadler, IBC Investments, Major General [retired] Toney Stricklin, & Dianne Welsh, University of North Carolina, Greensboro; previous member of the Board of Visitors, U.S. Air Force Academy].

Typical Course of Study

First year

Organizational Behavior (3)

Leadership and Knowledge Management within the Organization (3)

Training & Development and Human Resources in the Organization (3)

Data-driven Decision Making (3)

Elective (3) TBA

Elective (3) TBA

Second Year

Strategic Knowledge and Change Management (3)

Global Policy and Strategy (3)

Elective (3) TBA

Elective (3) TBA

MS Summative Project / Final Examination (3) or Elective (3) and Comprehensive Exam

- Master's project/Thesis course or Written Comprehensive Exam on Leadership and one additional elective to be chosen by the student

While there are Master's Degrees in Leadership across the country this is the first

one that requires that students work on SBI projects throughout their program and thus gain not only a theoretical knowledge about the subject matter but hands-on applied

learning using a proven method of instruction. The program includes both military and non-military students.

COMMITMENT AND COLLABORATION FROM NON-OBVIOUS PARTNERS: INTEGRATION OF A LAW SCHOOL, MEDICAL RESEARCH FACILITY AND ENTREPRENEURSHIP

Joe Bell, University of Arkansas Little Rock

ABSTRACT

This discussion of program best practice will focus upon integrating a variety of campuses and disciplines into a comprehensive academic entrepreneurship and commercialization strategy. Key players include the traditional business college and college of engineering, but branches out creating formal relationships with non-traditional partners such as a school of law and medical research hospital. Front-end affiliation strategies will be discussed, along with program implementation and outcomes.

EXPERIENTIAL LEARNING: BUILDING BUSINESS NETWORKS

Emily Carter, Southern Illinois University

Robyn Laur Russell, Southern Illinois University

NEED

Historically, there is no lack of clients streaming into technical assistance centers such as Small Business Development Centers and Entrepreneurship Centers. These types of service-based centers continue to attract start-up businesses struggling to acquire capital either to begin functioning as a full-scale operation or to stay afloat in tumultuous economic times. While working with these types of clients is essential to both the continuation of such programs as well as an important economic development tool to create local economic impact, these service providers, especially Entrepreneurship Centers, have grappled with attracting high-growth, scalable clients with a national or International scope. This level of client is often engaging in, or has the potential to engage in, International business.

Alternatively, this level of client, typically a CEO of a successful company, is almost never going to seek assistance from a service provider, especially not one that is government-funded, preferring to not waste their precious time on development when they can be generating income working in their company.

Many of the performance indicators for Entrepreneurship Centers are closely tied to the type of impacts only high performing, scalable businesses are able to achieve, thus sometimes making meeting those indicators difficult. Therefore, Entrepreneurship Centers must find innovative ways to attract and interest the type of clients that can not only build on the success of the Centers, but also enhance the knowledge base and level

of information sharing to benefit current and future clients.

PROGRAM DESCRIPTION

The concept for the International Business Club was formed in December of 2007 by the need to connect more effectively with high level CEOs who were already or seriously considering doing business globally. At first informally, then later more organized as a “club,” the organizers began setting up one-on-one client meetings when one client’s issues related to another client’s issues. These meetings would be mutually beneficial to both clients, with the service providers taking a “listening and facilitating” position. What entrepreneurs wanted was a place to get together with others walking their same path, whether slightly ahead or behind. Once enough interest was generated, potential members were contacted, who were all either CEOs or top-level key management team members, by invitation only, using viral marketing techniques to the first official meeting.

The International Business Club meets once per month and operates under the mission of “Connecting Locally, Thinking Globally.” Now over 20 companies strong, the members have a baseline criterion of at least \$1 million in annual revenue and 15 employees. Each month a guest speaker is invited to speak on some topic related to International business. Presentation topics to date have included: International accounting, International contracts and negotiations, International currency, foreign direct investment, sales brokering, pitching for venture capital, and bringing innovation into an existing

company. Thus far, the group has retained its enthusiasm and continues to engage new members. Staff is currently entertaining the start-up of another group in a neighboring region by interviewing potential members and gauging interest.

CONTRIBUTION

Attracting and retaining high-level clients is not only an ongoing struggle for all regions, but especially so for economically distressed rural areas. Rural areas are notoriously competitive and fragmented from business and industry leaders leading to poor communication and networking opportunities and very little exchange of information. Connecting local business leaders in a non-threatening manner and allowing mutually beneficial business practice sharing in a successful forum is a win-win scenario. Business owners form sustainable relationships leading to lessening their learning curve on crucial issues facing global trade while entrepreneurship centers increase their overall impact in a more efficient style, amicable to their clients. One successful example is connecting two companies, both in the IT area involving education, with vastly different, non-competing products, selling to Asian markets. These two companies continue to work closely in both the U.S. and abroad to further the reach of both their products. Another success story involves a company with foreign direct investment in China, offering to outsource their employee's services to help 3 other companies get their products into the Chinese market. This type of networking has helped to increase sales considerably in each instance.

Connecting with these successful businesses and knowing their integral business processes has allowed us to put together some value-added presentations to peer groups, students, and others. These

CEOs continue to be a source of education and experience for business students on our campus, like the Center for Innovation; in student-related entrepreneurial organizations, like SALUKI CEO; and in the experiential learning conducted through our youth entrepreneurship initiative, like CampCEO.

By replicating this successful forum throughout our service regions, we can serve more high-level clients efficiently, continually add to our knowledge base, and promote a sustainable venue for ongoing business expertise exchange throughout a larger region. In addition, by facilitating a member-driven group, it is proof to program clients that access to resources is truly a value-added proposition that the programs are providing. This value is a critical link to a continued client/provider relationship. By actively participating in the International Business Club, clients are "Connecting Locally, Thinking Globally."

GLOBALIZATION OF SBI WITH LOCAL AND GLOBAL SIFE AND UNIVERSITY PARTNERS

Harriet Stephenson, Seattle University
Leo Simpson, Seattle University

ABSTRACT

Take an SBI program actively engaged in triple-bottom-line consulting with a local microenterprise partner plus an established cadre of resources. Add to the program a new Endowed Entrepreneurship Chair Holder with SBI and SIFE roots. Infuse the SBI in senior capstone course with one social enterprise local focus. Add a study tour that requires social enterprises be developed. Partner with an NGO microcredit/village development organization with a village in Ofankor, Ghana. Team with award-winning SIFE team in Accra, partner with inner city nonprofit developing organic farm social enterprise in (X). Tie it all together for this submission for Best Practices.

Earlier reported initiatives to Globalize the (X) University SBI were reported at the Annual Conference in 2007. That had led to the SBI Director taking three other faculty and alumni to vet a village of potential borrowers in Ofankor, Ghana, start a nonprofit microloan/village development nonprofit which partners with the (X) SBI

This best practice submission is bringing the SBI into leadership position in developing an expertise current issues of globalization, social enterprise, sustainability and triple bottom line to fight poverty and help villages empower themselves to gain economic sustainability developing social enterprises that would work in the inner city of (X) or the village of Ofankor, Ghana and hopefully will replicate to Kenya and beyond. It includes a cross discipline analysis team to be developed that would be able to work with a village or a geographic area to do a needs assessment with student and collegiate partnering in US

and local to the villages. This move was encouraged by several serendipitous factors. There is a convergence of time and resources are right to pursue this model. A new Entrepreneurship Endowed Chair holder, with strong SBI roots fortuitously came on board and started a local SIFE. The SBI Director and an economics professor teamed to do a study tour to Ghana which included 7 graduate students and 4 undergraduates. All were SBI students. In addition, about a third were SIFE members all were required to do a social enterprise business plan for the study tour. They came up with possible businesses that could be run by the borrowers or a new entity. These were geared to make money if possible. A solar food dryer was constructed here and the same design used complementarily in a project for capstone senior course.

The entire senior capstone class was divided into four teams to help turn a viability-challenged youth organic farm project for the African American community into a potentially income generating operation. The class looked at a model that could be utilized at the Black Dollar Days/New Hope Church offices. The model was to be scalable and potentially available in the long run to other organizations.

At the time this was happening and now Urban Gardening is being encouraged, helping solve poor nutrition of lower income people in the United States and globally, help people get control over their food sources, helping reduce the amount of food waste in the United States, eating healthier both in the United States and globally are serious issues. The Church-Black Dollar Days the (X) SBI has worked with before. An (X) MBA student had won the social enterprise track of business plan competition with her proposal for a food drying coop in

Camaroon by December 2008. Solar food dryers and drying here was piloted and then in Ghana to see if the experience were relevant for Camaroon. The intent was to try out the dryers in P-Patches and coordinate the drying of some products--coordinate with food banks and farmers markets to dry excess produce to be able to stretch out availability of healthy food. Could you make successful business out of constructing and selling the food dryers here and in Ghana?

Could you make a business out of drying foods and brand it to the youth project here or Ofankor village in Ghana? Could the business be raised garden beds? Could people be educated to start their own urban garden. (X) City was making a big push for this. One group worked on business plan for the organic farm of 25 acres. Organic (natural makes more sense) farming is definitely in, in this area.

The SBI director, (X) had met the Accra SIFE students in March in Accra to get them started training the women borrowers and help develop relevant curriculum. They were highly enthusiastic as was their school. We invited the President of SIFE there to join us for a couple weeks of construction of the dryer, of experimenting with drying. We sent her an airlines ticket; however, it turned out she couldn't get a visa from the United States. Learning lessons abound. Getting resources together, coordinating, communicating, all slower in Ghana. Ghana time is quite a challenge. The electricity may be on or off. The Internet is down more than it is up, at least in Ofankor. The students on study tour teamed with SIFE in Accra to reconstruct a solar food dryer which the SIFE team there will train local microentrepreneurs to use and possibly make a business with.

Evidence of success--the goals were to globalize the SBI, social enterprise business plans were developed for solar food drying (and they have a sample dryer) we sponsored a district women's Ghana soccer invitational which has led to development a terrific social enterprise model headed by a local Ghanian coach--goal is to keep "girls" in school and give some vocational training. The study tour will be repeated with lessons learned incorporated. Five social enterprise plans were developed and tested in Ghana. Locally, the existence of (X) University and other partners so deeply involved in the steering committee and with the physical deliverables gives credibility to all of us. We are on a sharp learning curve.

HURRICANE KATRINA, GOVERNMENT RESPONSIBILITY, AND CORPORATE SOCIAL RESPONSIBILITY**

Patrick Walker, Christopher Newport University

ABSTRACT

Since the devastation of Hurricane Katrina experienced by New Orleans in 2005, much discussion has occurred regarding the issues of government responsibility in disaster relief efforts. This project proposes to analyze the roles of both government and businesses in disaster relief efforts. The analysis will be based on research and observations conducted during a service-learning project in New Orleans in January 2009. Twelve students will travel with us to New Orleans to help build homes with Habitat for Humanity. The focus of the project is to introduce students to the political, economic, and cultural environment in New Orleans; to engage them in research and analysis regarding government and corporate social responsibility; to expose them to the realities of rebuilding communities; and to foster a greater sense of social responsibility.

First, using ideas and outlines provided by "Teaching the Levees"¹¹, this project assesses the economic and legal roles of all levels of government with respect to prevention, evacuation, basic needs (i.e., food, shelter, travel/relocation), and reconstruction. For each of these issues, the level of government involvement; the action taken; the economic, political, & legal reasons for success or failure of actions taken; the current changes to disaster relief policy will be evaluated for federal, state, and local government. Second, this project will assess the legal perspectives, ethical considerations, and economic evaluation of the role of businesses with respect to

disaster relief efforts. With the increasing emphasis on corporate social responsibility, this section of the analysis explores the private and social benefits and costs in conjunction with the moral responsibility regarding business involvement in rebuilding efforts. Finally, this project evaluates student engagement and learning utilizing a combined academic and service approach by comparing the students' understanding of disaster relief efforts before and after the service component is completed.

MASTER OF ENTREPRENEURSHIP DEGREE

Jo Ann Carland, Western Carolina University
James Carland, Western Carolina University

ABSTRACT

The College was granted a license to bestow The Bachelor of Science in Entrepreneurship and the Master of Entrepreneurship by the General Administration of the University of North Carolina, January 11, 2008. The College has begun its first cohort of Master's students in a wholly online, distance environment. The College is specializing in Entrepreneurship and has created an environment for place bound, working adults with families to have access to entrepreneurship education, a journey which has the potential to change their lives by allowing them to become the best that they can be for themselves, their families and their communities.

NEED

Entrepreneurship education is the answer to renewing and rebuilding our economy. Many of our adult learners are place bound with no real future. As their jobs continue to go abroad, many adults are finding that their standard of living is falling. They no longer have retirements and pensions, but they can create livelihoods for themselves given the chance. Most of our place bound adults do not have a university within a reasonable distance. They have jobs and families and yet desire more than a job and a better situation for their families. According to our research, our students are from:

A population that is undereducated and under-skilled; An economic base that is highly dependent on a few relatively low-wage industries, many of which are reaching the ends of their life cycles;
A poor infrastructure to support economic development; An area with little support for small-scale local business development, including the ability to incubate businesses and assist with financing. An area with little support for small-scale local business development, including the ability to incubate businesses and assist with financing.

Program Description:

The Master of Entrepreneurship is a 30 semester hour program consisting of 10 courses in Entrepreneurship. The courses, each of which carries 3 semester hours of credit, are as follows:

ENT 601 Entrepreneurial Innovation
ENT 610 Entrepreneurial Planning
ENT 620 Entrepreneurial Creation
ENT 630 Entrepreneurial Development
ENT 640 Entrepreneurial Growth
ENT 650 Entrepreneurial Accounting
ENT 660 Entrepreneurial Finance
ENT 670 Entrepreneurial Valuation and Intellectual Property
ENT 680 Independent Study and/or Research (By permission only)
ENT 690 Entrepreneurial Strategy
ENT 700 Entrepreneurial Leadership

The courses were created out of an analysis of what is considered important in the Creation, Growth and Harvesting of a venture. Each step in the process was visualized for content in the developmental phases of the venture and key points were ascribed to the courses where they would make the most relevance.

A specialty College has been created to serve the needs of adult, place bound learners. They have received a license from

the University of North Carolina system to grant a Bachelor of Science in Entrepreneurship and a Master of Entrepreneurship through this College. The BSE is not yet initiated, but the ME is online and has students. Its ten courses are totally online with streaming video, texts, PowerPoint's, and skype with a message board for interactions among the students. Contribution: The first cohort has fourteen students in the Master of Entrepreneurship program. The majority of the students are from North Carolina with one from Texas and one from New York. The mean age is forty-five, with seven males and seven females. Three are of international descent and three are African-American with the other eight being Caucasian. This online degree program for place bound adults offers not only an educational opportunity to those unable to experience it in a traditional fashion, but offers each a chance to become an entrepreneur and not be dependent on the whims of fate.

MINDING OUR BUSINESS: AN EFFECTIVE SUMMER PROGRAM FOR URBAN PREADOLESCENTS

Sigfredo Hernandez, Rider University

1. Background Information

Minding Our Business is a community outreach program of the College of Business Administration at a private AACSB accredited university located in the northeast United States. Minding Our Business (MOB) was developed in 1997. The mission of MOB is to advance the personal and vocational development of Trenton youth through entrepreneurship education and mentoring. Minding Our Business operates three programs--the Spring Program and the Summer Program were created in 1997, and the Advanced Program launched in 2004. The program's target population is urban preadolescents, most of who are African American and Latino and live in poverty. Seventy percent of MOB students participate in their schools free or subsidized lunch program.

The urban students served by MOB are at a critical age when they are struggling with issues of personal development, and when they often begin to experiment with sex, drugs, and violence as a mode of conflict resolution. We strongly believe that a supportive, mentoring relationship and a well-designed curriculum that emphasizes active learning can have a positive impact on student self-esteem and the development of important life/work skills. Mentoring and hands-on learning in entrepreneurship help prepare these students to meet the challenges they face successfully.

Since 1997 MOB has trained and mentored more than 1,300 urban middle school students, ages 11-14, helping them to start and run their own businesses. MOB's vision is to become the leading model nationally

for service learning and mentoring in entrepreneurship to urban youth at the middle school level.

2. Minding Our Business and Characteristics of Effective Summer Learning Programs

The theme of the MOB Summer program is entrepreneurship. The underlying educational philosophy of the program is to transform students into doers and thinkers. Students become actively engaged in their own learning since they have to apply the entrepreneurship concepts that they learn to the creation and operation of their own businesses. The students are invested in their learning since the learning of the concepts has an impact on the bottom line -- the failure or success of their businesses.

The students create a business plan for their respective businesses throughout the two weeks of training. The construction of the business plan becomes the key mechanism for integrating what students have learned about entrepreneurship and for linking entrepreneurship to the basic core subjects that they are learning in school. The development of a quality business plan requires not only the effective use of language, in its written and oral form, but effective application of the visual and performing arts, as well as mathematics. All students are required to write a business plan and to submit it to their instructor for feedback. Students are also required to apply their knowledge of math in the development of a pro-forma income statement as part of their business plans. The authors of the ten best business plans then compete for prize money using their Power Point presentations at the main theater of the host university.

The program involves a training component and an experiential component where students start and run their own businesses. The training component begins on June 24 and lasts until July 10. The experiential component which includes merchandise trips, mentor support sessions and market fairs take place every two weeks from July 6 to August 19. Middle school students participate in 12 days of intensive training in entrepreneurship on the host university campus in from 9 a.m. to 4 p.m. Students learn how to start and run a business from one of the best entrepreneurship educators in the country.

The training culminates with a business plan competition sponsored by the African American Chamber of Commerce (AACC). Students participate in personal and vocational development workshops throughout the training.

The experiential component involves four Market Fairs during the summer at selected sites in the urban community where students run their businesses. Students keep their profits but are encouraged to reinvest those monies into their businesses. Prior to each market fair students participate in a business trip to purchase merchandise for their businesses. Two of the merchandise trips are to the Wholesale District in New York City. Each student receives a \$100 grant as seed money that they must use to purchase merchandise throughout the summer. Also, prior to each market fair students participate in a Business Coaching Session. At each session, parents and business students from the host university help students effectively plan to run their businesses at the upcoming market fair. A key to the success of the program is parental involvement. Parents are required to pledge support to the program. They do so by volunteering their time; most

business coaches in the summer program are parents of children participating in MOB.

Students who successfully complete the training component earn the right for a trip to an adventure park. A similar reward exists for those students who complete the experiential component successfully.

Approach to Learning

Accelerated Learning. A parent orientation is held on the Sunday prior to the start of the program where high expectations are communicated to student and parents on the amount and quality of work expected and our intentional focus on accelerated learning.

The best way to describe the two week training experience for the students is as an intensive learning experience. Students receive entrepreneurship training every day from 9a.m. to 4p.m., excluding an hour of play and another hour for lunch. The curriculum of the National Foundation for Teaching Entrepreneurship (NFTE) is used throughout the training. Students are required to do homework daily and to read two or three chapters a day from the text. Students are quizzed several times daily on the material read and on the short lectures given by their entrepreneurship instructor.

Entrepreneurship training. Each morning the training starts with a homework review period where the reading specialist and the tutors verify that the students have completed their homework and help students overcome their learning difficulties. The staff makes sure that students practice effective reading comprehension strategies as they complete the reading. One half of the students participate in the homework review period while the entrepreneurship instructor teaches a lesson connected to the reading homework to the other half and require

students to apply what they have learned through a learning activity. The entrepreneurship lesson-application sequences continue throughout the day. The instructor uses a variety of learning activities to keep students engaged during the long hours of training. They include: application activities, quizzes, case studies, role plays, simulations, memo writing, writing and reading exercises that require the use of the text, business plan writing, research activities and cooperative learning.

Reading and math workshops. Given the accelerated pace of the learning, some students experienced significant difficulties particularly with the reading of the text and the knowledge of math required by the income statements. In anticipation of those challenges reading and math support have been integrated into the training.

On the first day of training the Reading Specialist facilitates a workshop on effective reading strategies. Students practice the reading strategies to be used throughout the training as part of this workshop. Students are required to use the learned strategies to complete their homework. The reading specialist and the tutors check on their use during the homework review period each morning.

On the second day of training students have a chance to practice the math necessary to plan and run a small business. This includes adding, subtracting, and dividing operations; the use of decimals and percentages, and the application of simple algebraic formulas to a business income statement. Class interventions by the math specialist also take place when business math is assigned as homework and to help students apply math correctly to their business plans.

Strong Commitment to Youth Development.

Our mission is to advance the personal and vocational development of urban youth. The Summer Program was created with this purpose in mind. Students are afforded the opportunity to become summer entrepreneurs and experience this vocational option in depth at their very young age. Students can develop entrepreneurship skills, communication skills, reading, and math skills that are important for coping with present and future life/work challenges. Also students have opportunities to further their development through structured reflection about their summer experience during mentor support sessions. Our students receive personal attention to their needs from caring adults throughout the training, where the student-to-staff ratio is 6:1, and at the business coaching sessions, where the student-to-mentor ratio is 2:1.

Proactive Approach to Learning. Because of our strong commitment to youth development for students of low-income and disadvantaged backgrounds we are determined to reduce summer learning losses in reading and math. MOBSP is a meaningful summer learning experience for low-income children. During the training portion of the program students are required to do extensive reading in entrepreneurship. Students are taught to read more effectively by a reading specialist. Students are required to apply math correctly in the preparation of their income statements. Students experiencing learning difficulties are helped by college students working as tutors. Student learning continues through structured reflection in the experiential part of the program.

Students' learning is enhanced by the experiential learning cycle on which the summer program model is based. First, during the training students get exposed to

the key concepts of entrepreneurship. They apply these concepts during the training as they develop their business plans. Second, through the market fairs students put their business plans and the concepts that they have learned into action. At this stage students become summer entrepreneurs and they experience what entrepreneurship is all about.

Third, students reflect about their entrepreneurship experience as part of the program mentor support sessions. At the heart of the program's educational philosophy is the belief that learning and development are not in the experience but in the reflection that follows. Students make adjustments in their business plans as a result of their reflections and the feedback offered by mentors. Students experience learning in the program as a process. Most students are highly engaged in this process and they sift through the feedback at all three stages on the effectiveness of their learning efforts. The learning that takes place in the summer program is part of a holistic process involving the integrated functioning of the whole student – thinking, acting, perceiving, feeling, and reflecting.

The Program's Infrastructure Strong, Empowering Leadership

The program's entrepreneurship instructor and the program director are recognized leaders in the areas of entrepreneurship education and youth development, respectively. The entrepreneurship instructor is recognized as possibly the best entrepreneurship educator in America at the junior high and high school levels; the director and MOB have received several awards recognizing the positive impact of the program on the personal and vocational development of urban youth and the value of the program to the urban community. The director has a lifelong passion for and

commitment to advance the personal and vocational development of urban youth through entrepreneurship education and mentoring.

The two program leaders empower students in their learning. In this program the instructor, the director and other program staff are the “guides on the side” while the students are the main actors and learners. Students have the unique opportunity to become real entrepreneurs for the summer and beyond. Parents pledge their support to their children to help them succeed in the program, including attendance at market fairs and mentor support sessions. Many parents become mentors to other students whose parents are less supportive.

Advanced, Collaborative Planning

At the conclusion of the summer program the director meets individually with the instructor, the assistant instructor, the reading specialist, the presentation coach, and the tutors to discuss the learning activities that worked well and those areas that need improvement. In addition, the MOB Team meets for a group reflection on what worked well and what needs improvement. This information is recorded and is combined with program evaluation data. Then, a month prior to start of the program a committee of MOB Advisory Board members studies the data and the worked well/needs improvement areas. The committee makes recommendations to improve student learning and their entrepreneurship experience in the upcoming program. The director meets with the staff prior to the start of the Summer Program to plan the implementation of new changes. This reflection-based planning is responsible for major program improvements such as the addition of a business coaching component to the program in 2001, the addition of the

business plan competition in 2004, and more recently the use of a reading specialist, a math specialist, and tutors to aid student learning.

Extensive Opportunities for Staff Development

The program director and the lead instructor participate in innumerable professional development activities each year and keep current on best practices for teaching and learning and for advancing youth development. The reading and math specialists are effective teachers in their respective urban schools and benefit from the professional development activities of the urban school district where they work. The assistant instructor is a certified special education teacher in the Trenton School District and possesses a BA in business. Her training has been an asset in assisting lower performing students in the program. As a public school teacher she is required to attend professional development activities.

The college tutors that work in the summer program gained experience mentoring our kids during the MOB Spring Program where they received extensive training in mentoring, entrepreneurship and team facilitation skills. The program director selects the best qualified mentors in the Spring Program to become part of the Summer Program staff.

Strategic Partnerships

Our community partners include: the African American Chamber of Commerce (AACC), Trenton schools, community organizations, and local businesses.

MTAACC is a major MOB partner. MTAACC sponsors the MOB Business Plan Competition, as part of the Summer Program, where urban students compete for prizes for the top business plan

presentations. AACC provides business coaches for the children in the Summer Program. Also, AACC has provided invaluable help with fundraising for MOB. In October of 2007 it partnered with MOB in its Expansion Fundraiser. Thanks to AACC, the fundraiser was a success, exceeding the established \$10,000 goal. The AACC's President, is a distinguished MOB Advisory Board Member. AACC has been instrumental in obtaining financial support for MOB from two of its corporate members: Merrill Lynch and Verizon.

Many urban public schools are MOB partners. Four urban schools host the Spring Program and supply most of the students for the MOB Summer Program. They also graciously share their facilities with the Summer Program Market Fairs and Business Coaching Sessions. In addition, the Summer Program serves students at ten different public elementary schools. The local baseball professional team has hosted Market Fairs for students in the Summer Program. We are currently partnering with the city's recreation department to conduct Summer Program market fairs at their "Summer Concert Series". These events are well attended and provide a great market for the young entrepreneurs of the summer program.

Rigorous Approach to Evaluation and Program Improvement

As discussed earlier in the section Advanced Collaborative Planning, the program's leadership has a strong commitment to program improvement through learning and program evaluation. Multiple measures are used to assess program success.

- A training reaction survey is used to determine the success of the training component from the student's perspective.

- Students are surveyed about their plans for the future including going to college, interest in running a business, and interest in pursuing a career in entrepreneurship.
- Students take a test at the start of the training and once again at the completion of the training in order to assess gains in their knowledge of entrepreneurship.
- Student reading comprehension is monitored on a regular basis through the use of quizzes and writing assignments. A measure of reading self-efficacy is used with all students at the beginning and at the completion of the training.
- Student improvement in math skills is measured by the correctness of their calculations in their projected income statements, as part of their business plans. A measure of math self-efficacy is used with all students at the beginning and at the completion of the training.
- Student surveys are also used to evaluate the effectiveness of the Mentor Support Sessions.
- Short surveys are collected periodically at the Mentor Support Sessions in order to gather data on businesses' sales and profits as well as student plans to stay in business after the completion of the program.
- In addition, oral assessment techniques are used in the Mentor Support Sessions to determine how much students have learned about running a business and about what it means to be an entrepreneur.

Focus on Sustainability and Cost Effectiveness

The Summer Program experienced rapid growth in 2004 to fifty-five students from thirty-five students in 2003. As a result,

program costs climbed from \$35,000 a year to \$55,000. Moreover, the quality of the mentor support sessions declined as it became increasingly difficult to facilitate a large group of 55 students as opposed to a smaller group. This unplanned growth was clearly financially unsustainable and unwise in terms of maintaining program quality. In 2004 the program director, with the support of the MOB Advisory Board, decided to cap the number of Summer Program students to thirty-five. In 2006 the Advisory Board approved a slightly larger budget for the 2006 program of \$40,000 but suggested an increase in program fees from \$100 to \$150. Although students receive \$100 back as seed money to buy merchandise for their businesses, student families that cannot afford the new registration fee are able to apply for scholarships. In an effort to contain costs, the 2007 Summer Program was limited to an enrollment of 30 students.

We continue to expand our corporate/foundation fundraising. Thanks to a significant increase in the number of grants received we were able to double the size of the program in 2008 to 60 students attending two summer sessions. MTAACC and the MOB Advisory Board will continue to conduct fund raisers annually in the month of October to increase local contributions from individuals and small businesses.

3. 2008 MOB Summer Program Highlights

Minding Our Business Summer Program (MOBSP) is an effective entrepreneurship program for low-income urban students (ages 10-13). Students learn how to start and run their own businesses while improving their academic, life, and work skills. Three hundred applications were received for two summer sessions. Thirty students participated in the first program session

while twenty-eight students participated in the second session. These urban students attended 5th, 6th, 7th or 8th grade at eleven public elementary schools.

Self-Efficacy in Reading, Writing, Math, & Business

Self-efficacy scores in reading, writing, math, and business were significantly higher at the end of the training as compared to first day scores. Reading self-efficacy was on the average 11% higher, writing self-efficacy 9% higher, math self-efficacy 5% higher, and business self-efficacy 19% higher at the completion of the training than at the start.

Knowledge of Math & Entrepreneurship

Students at the conclusion of the training scored on the average 28% higher than their average pre-training scores on key entrepreneurship concepts. They also scored 6% higher on their math test at the end of the training as compared to their initial scores.

Better Changes in Self – Skills & Attitudes

The majority of the students perceived better changes in self as a result of their MOB training in their: feelings about own future (94%), their entrepreneurship skills (93%), their leadership skills (85%), their ability as a student (83%), their ability to communicate (82%), their feelings about self (82%), they also perceived improvement in their reading skills (61%), math skills (61%), and writing skills (57%). *Ninety-four percent of the students felt that the workshop and daily homework review by the reading specialist helped to improve their reading skills.*

Oral Presentation Skills

Twenty-six students participated in three business plan competitions and received

presentation training by a professional presentation coach. Participating students received scores of good or excellent on their business plan presentations.

Plans for the Future

Eighty-six percent of the students responded that they have become more interested in going to college due to MOBSP. Eighty-four percent indicated that they have become more interested in a career as an entrepreneur or a business owner. Seventy-seven percent indicated that they plan to run their businesses after the last summer market fair. Ninety-two percent of the students plan to use the effective reading strategies learned at school.

Satisfaction with MOBSP

The program's effectiveness is also evident in students' high levels of satisfaction with MOB. *Eighty percent expressed interest in joining MOBSP next year.*

Desire to Start Their Own Businesses

Students were asked if their desire to start a business was far greater than before, a little more than before, the same as before or less than before the MOBSP. *Fifty-six percent of the students reported that their desire to start their own business is far greater than before MOBSP.*

Market Fairs and Business Coaching Sessions

Average sales per student-run business in first market fair -- \$58.29. *Eighty-nine percent of the students found the business coaching sessions.*

ASHLAND UNIVERSITY SIFE: SMALL TOWN DEVELOPMENT WORKSHOP

Kristen Hovsepian, Ashland University
Ken Pelasky, Ashland University
Joe Pelasky, Ashland University
Al Yambor, Ashland University

In fall of 2006, the AU SIFE team, working with the Mid-Ohio Small Business Development Center (SBDC), began working on a longitudinal project investigating the health and potential of small towns in Ohio. The first city we worked with was Willard, Ohio.

Using a research instrument developed by the State of Ohio, we surveyed consumers in both downtown venues and “outside the town” venues. The statistical results were analyzed and presented to the City Council. One positive result of our work was that Willard received a downtown development grant from the State, totaling \$125,000.

In the spring of 2008, AU SIFE undertook a second small town project, working with the city of Norwalk, Ohio. Using basically the same survey, we polled consumers both downtown and on the outskirts of town, to determine customer satisfaction in what downtown Norwalk had to offer. The results paralleled what we found in Willard. We also surveyed downtown businesses to determine what they felt the City offered them and what their positives and negatives were, regarding the efforts of the local administration.

One major gap in the surveys for both Willard and Norwalk were the lack of inclusion of the Hispanic minorities that make up from ten to thirty percent of the

total population (the disparity depends on with whom you are speaking). AU SIFE has translated the original research instrument and plans on submitting it to the Hispanic Catholic churches in both towns. The data formerly entered will be reanalyzed to include the impressions of this very important market.

AU SIFE proposes a workshop to consider what the future is of small towns across America. This would be primarily a brainstorming session, after AU SIFE students present their research about Norwalk and the recommendations they made to the city government and Chamber of Commerce. Included will be the research SIFE students did into the phenomenon of “created” small towns. In Ohio, these include Crocker Park, in Westlake and Easton Place, near Columbus.

AU SIFE will share the research instrument used- and its alterations, since the original took almost thirty minutes to administer; methodology; constraints; and statistical analysis.

Our goal is to broaden the research to encompass other states and regions which may be experiencing a “devitalization” of small town America, to better offer solutions, placebos, and short term “fixits” for long range success.

COMPETITIVE INTELLIGENCE FOR THE SMALL BUSINESS: WHAT IT IS; HOW TO GET IT; HOW TO USE IT

Ron Rubin, University of Central Florida

The word “intelligence” conjures up images of sleuths with magnifying glasses in hand, or the secretive meeting of two individuals in the back corner of a bar to exchange thousands of dollars for some valuable inside information. As you will see in this workshop, information on competitors can be collected efficiently and accurately through totally honest and ethical methods. In the world of commerce, this intelligence gathering goes on every day, without necessarily called by its rightful name. An article that appeared in Barron's (March 19, 1979, p. 4) clearly pointed out that gathering corporate intelligence is everyone's job and that virtually everyone collects it – knowingly and unknowingly. In effect, the sources you need to uncover competitor information may already be there; ready for the picking, if you know where to look. There are many books that will teach a reader how to conduct a survey, sample a population, and do basic library research. However, there are few sources a small business manager or counselor can turn to when having to scrutinize a competitor's financial statements, distribution channels, or marketing strategies. Somehow these other sources fail to impart the nitty-gritty information that will allow a manager/counselor to track what a competitor is doing or will be doing. The field of competitive intelligence – a popular subject in today's business press – assumes you already have all the facts about your competitor in hand. Unfortunately, this assumption is way off the mark. Sometimes the most difficult part of a competitor analysis is collecting accurate and reliable intelligence in the first place. Too often,

obtaining even the most basic pieces of information, such as a competitor's product features and services or number of employees can become an enormous obstacle, which in turn can hold up developing a competitive strategy to offset that competitor's competitive advantage. After all, how can you proceed to collect information on a competitor if you can't find it?

This workshop will deal with specific creative tools and techniques you can use to get that microscopic, “insider” business information. It may be a wonderful experience to be able to project a competitor's growth rate, using your favorite spreadsheet package. But where are you going to find the facts you need to construct the forecast?

This workshop answers the most fundamental questions about small business intelligence- gathering:

What is it?

How do you do it?

Where do you find the intelligence?

How do you use it?

This workshop will help participants determine a competitor's:

Marketing strategy

Service plans

Production

Product features

Impending product announcements

Plant capacity

Number of employees

and more.

A Step-By-Step Guide to Intelligence-Gathering

This workshop will offer its participants a “soup-to-nuts” approach to intelligence gathering. Simply listing sources is not enough; that would provide no guidance as to which sources are best or which to use first. Instead, this workshop will give you the basic understanding of how and why intelligence gathering works, as well as an explanation of the techniques that will allow you to put theory into practice. By the time you finish this workshop you should be able to understand and, more important, use intelligence-gathering techniques and sources to your competitive advantage. I find intelligence gathering to be exciting and full of adventure. To help you feel and understand the full import of certain sources and techniques, I will introduce what I call “War Stories” into the workshop. These stories recount actual Small Business Institute research assignments tackled and solved, illustrating certain techniques and sources.

Part 1 of the workshop explains to the participants who may be making the first stab at small business intelligence research why it is possible to collect a great amount of detail on competitors.

The second part of the workshop will demonstrate how to locate creative intelligence sources that will reveal vital facts. This part is based on years of research assignments carried out for scores of Small

Business Institute clients in industries as wide and diverse as there are pages in the telephone book. Most important, it demonstrates how to locate new intelligence sources to meet different small business needs.

Workshop Outline:

- I. Laying the Foundation
 1. What is Competitive Intelligence?
 2. How Intelligence Travels in the Real World
 3. Intelligence gathering: The Jigsaw Puzzle
- II. Creative Techniques and Sources Available to the Small Business
 1. Using the Yellow Pages: Let Your Fingers to the Stalking
 2. Eyeballing Your Competitors: How to Use Visual Sighting
 - a. Learning Through Maps
 - b. Getting an Overview of Your Competition: Aerial Photography
 3. Open Season on Competitors: Trade Shows
 4. Help-Wanted Ads as an Intelligence Source
 5. Milking an Article for all it's worth

COY COMPETITION--CONTINUOUS IMPROVEMENT

Leo Simpson, Seattle University

ABSTRACT

The Case of the Year competition (COY) is an integral part of being a member in the Small Business Institute®. New competition rules and procedures were implemented four years ago and minor tweaks have been added since then. A new competition category was added this year in which members can submit business plans/feasibility studies done for third party clients at both the undergraduate and graduate levels.

This workshop is designed to allow the membership of the Small Business Institute® discuss in an open forum some of the specifics of the competition including the consideration of changes to the current system. Expected topics of discussion might include electronic submission; the new business plan category and procedures associated with that; and a review of current practices in the spirit of continuous improvement.

All members are invited to attend and discuss pertinent issues with respect to the COY competition and procedure. Many different approaches are used, so attend with an open mind about establishing a fair and equitable competition that encourages everyone to participate and treats each competitor with fairness and equity within the structures specified for competition.

**ENTREPRENEURIAL CURRICULUM:
WHAT HAS WORKED
WHAT SOME SCHOOLS USED
QUESTIONS FOR THE AUDIENCE**

D. Lynn Hoffman, Metropolitan State College
Nina Radojeveck-Kelley, Metropolitan State College

ABSTRACT

Many schools now have some entrepreneurial courses, some leading to certificates, concentrations, and others to complete majors. The Workshop will examine the curriculum from several schools from those who have a few courses to those who offer certificates, concentrations, and majors. We will also provide some suggested curriculum from leading schools and some material from their workshop. The audience will then be asked to participate in a number of questions about entrepreneurial and social venturing curriculum.

The Structure of the Workshop

The structure of the workshop will be as follows: a description of a curriculum that resulted in an entrepreneurial major, a curriculum that led to a concentration, and a proposed one that will lead to a certificate. The pros and cons of each will be discussed. In addition the sequence of prerequisites will be examined.

With this background the presenters will explain how the above approaches answer some of the following questions and then allow the audience to provide some of their proposed solutions. The presenters will take notes of the presenters' and audience's answers and will be willing to send via email some of the results.

Because the presenters have been tasked with rebuilding the curriculum at Metropolitan State College, we hope to learn as much as we provide. We are especially interested in what has worked and not worked at other schools. We are also interested in how other schools work through AACSB accreditation issues. We are also interested in the political issues – how do they deal with other departments

offering entrepreneurial courses and other departments offering social venturing courses with business content.

If there is time left over the presenters will explain their involvement in one of the few successful non profits that successfully entered the for-profit area and raise the question where that curriculum should fit.

After the introduction the questions will be:

- What is the best sequence of courses?
 - Are there a number of sequences that work?
 - Where does small business management fit in – the management of the business after the business is well established?
- Do some curriculums have their own strategy course designed just around small business or do some use the strategy course that the other business majors take? If so how do they satisfy the AACSB criteria?
- Where do the concepts of creativity, brainstorming of venture ideas,

opportunity recognition, and opportunity analysis fit it? Which course or courses do these fit in best?

Because a higher percentage of non business majors especially musicians, artists, and photographers start small businesses than business majors how do some schools attract and fill their need for a course? How do they set the prerequisites so that they can enroll? Or do some schools exclude them and let some other department if any service them?

Do some schools allow a non business department to offer entrepreneurial courses to non business majors?

Do some business schools work with non business departments in social venturing classes?

Do some schools include social venturing in their entrepreneurial classes?

If they offer social venturing how do they deal with the prerequisite issue above?

If they do not offer social venturing do they let other departments offer this course with business content or are they somehow involved?

At the end of the workshop the presenters will summarize the information and provide a summary of suggested answers to those who provide their email address.

ENVIRONMENTAL SCANNING: UNDERSTANDING AND IMPROVING EFFECTIVENESS

Dianne Campbell, Rider University

ABSTRACT

Entrepreneurs need to do environmental scans as part of their initial business plan. After start-up, most entrepreneurs have such an onerous workload that environmental scanning can be neglected. What information is continually tracked and what is ignored? What effect does this have on continuing success? This workshop will use information seeking models to discuss environmental scanning for entrepreneurs. The workshop will also demonstrate RSS, an automatic targeted information delivery tool which can improve and focus environmental scanning.

In the information world 'environmental scanning' would fall under 'information seeking behavior'. There have been many studies of information seeking behavior of various groups and there are several established models to use in examining this behavior. I have developed a series of questions that would measure how much time was spent on the initial environmental scan, what resources were used, how much of the information was found online, and what information professionals, if any were consulted. The first part of the workshop will be a discussion of some of these models of information seeking behavior and their relevance to understanding entrepreneurial cognition. We will also discuss the issues raised by my literature review and research while developing these questions. The second part of the workshop will be a demonstration of the easy information tool, RSS, which could be shared with a client entrepreneur by a student consultant.

Purpose of the workshop:
Participants will hear an overview of the latest research on information seeking behavior and how it can help entrepreneurs. Recent research on environmental scanning by entrepreneurs will then be discussed using this framework. There will be a demonstration of some tools for increasing the effectiveness of environmental scanning. Participants will receive a bibliography on the topic, and a template for simple

implementation of automatic targeted information delivery.

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**INTERNATIONAL ENTREPRENEURSHIP PROGRAM DEVELOPMENT AND
RESEARCH:
EMERGING MARKET, EDUCATIONAL, AND HEALTH CARE
ENTREPRENEURSHIP**

Dianne H.B. Welsh, University of North Carolina Greensboro
Howard Van Auken, Iowa State University
Shawn M. Carraher, Cameron University

Dianne Welsh, Howard Van Auken, and Shawn Carraher shall talk about international entrepreneurship bringing together decades of experience in international entrepreneurship research, education, and service.

DIANNE H.B. WELSH is the Hayes Distinguished Professor of Entrepreneurship at the Bryan School of Business and Economics at The University of North Carolina Greensboro. A recognized scholar in international entrepreneurship and franchising; she is co-editor of the first comprehensive volumes on global franchising in emerging and industrialized markets. Dianne was a Presidential Appointee to the Board of Visitors for the U.S. Air Force Academy and a member of the Defense Advisory Committee for Women in the Services (DACOWITS). Dianne will discuss international entrepreneurship and small business development in emerging markets. For decades the field of entrepreneurship has been dominated by research on developed economies, especially those of United States and Europe. Emerging markets, such as the former Soviet Bloc countries, have largely been ignored. These countries have experienced, in varying degrees, major political, economic and social changes that have had a major impact on their current entrepreneurial climate. Based on the new legal and institutional frameworks these former Soviet Bloc emerging markets are establishing, the entrepreneurial

phenomenon in general and women entrepreneurship in particular needs explored.

Dianne will discuss her research around the world since her ground breaking studies in the former Soviet Union in 1988. Dr. Welsh conducted five major studies that resulted in numerous publications. These studies included small business retailers, among others. Women played a major role in the success of huge factories as well as small businesses that Dr. Welsh studied, managing their operations and growth. Women-owned businesses today provide an important contribution to the development of the formerly Soviet Bloc economies. The Center for Women's Business Research estimates that 10.1 million firms are owned by women that employ more than 13 million people and generate \$1.9 trillion in sales as of 2008 (www.cfwbr.org). Women entrepreneurs are important players with a growing impact on the world economy. Their contribution to jobs creation, hope and opportunities is undeniable worldwide. However, little attention was paid nor known about women entrepreneurs worldwide before the Diana Project funded by the Kauffman Foundation (Brush, Carter, Gatewood, Greene, & Hart, 2004).

Mariana Dragusin from the Bucharest School of Economics and Dianne Welsh are currently conducting a study of Romanian small business women entrepreneurs that will round out the discussion. This study examines the characteristics and growth of entrepreneurial women-owned and managed businesses in what has been considered the most oppressed of the former Soviet Bloc economies-Romania. Progress made by women-owned businesses 19 years since Romania changed its political regime is examined in comparison to the Ukraine (Hisrich, 2006). Women's role as an important part of the national workforce, the impact of the new legal and institutional environment on women's entrepreneurial efforts, access to key resources and capital, and the use of networks as key strategic resources will be explored.

Through a better understanding of international entrepreneurship in emerging and developed markets, this panel provides useful insights into developing and growing businesses while enhancing the entrepreneurial spirit that can lead to real progress in their economies. Finding ways to empower entrepreneurial success is critical for more sustainable and successful economic development in the former Soviet Bloc economies.

Howard Van Auken has been involved in and will speak about different types of international entrepreneurship programs. His presentation will include (1) background on the development of the program, (2) brief description of the program, (3) lessons learned from the experience. Programs to be discussed, which vary by country, length, and nature of support, include (1) entrepreneurship program in Spain, (2) entrepreneurship program in Mexico, (3) entrepreneurship certificate program in Slovakia, and (4) entrepreneurship program in Russia. The discussion will end with

comments regarding international institutional linkages to support international entrepreneurship.

Entrepreneurship Program in Spain

Background - The entrepreneurship program in Spain was designed to provide students with a variety of learning opportunities. The program integrated entrepreneurship, culture, and language. Program activities included experiential learning, classroom lectures, company visits, independent study, and cultural experiences. The purpose of the program was to (1) introduce students to entrepreneurship, (2) expose students to international dimensions of entrepreneurship, and (3) help students understand differences in small business operations between different countries. Students lived with host families

Development - The program took two years to develop. Site visits were made in 2003 and 2004 to establish institutional relationship and establish program needs. The program, which was offered in 2005, 2006, 2007, and 2008, was open for all students regardless of major. Almost 50 students participated in the program in 2005 and 2006, 35 students in 2007, and about 25 students in 2008. My participation in the program ended in 2006 and the program turned over for departmental and college management.

Lessons Learned

1. Develop and share a vision
2. Support from the home institutional is critical.
3. Collaboration with a host institution in the foreign country facilitates ease of program development.
4. Accurate budgeting
5. Active marketing of the program generates student demand.
6. A faculty champion is important in recruiting students.
7. Use opportunities to collect data.

8. Tenacity is important

Entrepreneurship Program in Mexico

Background - The program, which was designed to help student understand the breadth of small businesses in Mexico, offered students a variety of learning activities that included cultural activities, independent exploring to accomplish specific educational objectives, structured lectures, and visits to companies. During the time that I lived in Mexico (1989), I established a strong working relationship with a university in Monterrey as well as faculty at the university. These relationships enable me to develop a two week study tour for students.

Development - An initial site visit to Monterrey, Mexico City, and Guadalajara was made to set-up the program in 1996. Program locations and activities changed each year depending on opportunities, costs, and safety issues. The program was offered in 1997, 1998, 1999, and 2000. About 25 students participated each year. The program ended after too many years of trying to convince college administrators of the value of international program and my participation ended.

Lessons Learned

1. Working closely with a host country colleague is critical.
2. Budget and program flexibility were valuable.
3. Screening of students can prevent problems.
4. Support of the home institution is a prerequisite for program longevity.
5. Students thrive on exposure to new ideas and experiences.
6. Expect challenges

Entrepreneurship Certificate Program in Slovakia

Background- A three week program given at the AgroInstitute (Nitra, Slovakia) during Fall, 1994. The program was given to secondary school teachers, and included lectures (e.g. market economics, business creation, marketing, human resource management, financial management), business tours, and group activities. Participants earned a certificate at the end of the program.

Development - The program was part of a US government grant to provide technical assistance and training during Slovakia's transition to a market economy. Relationships were established and visits to facilities occurred during prior visits. These visits established the needed working relationships to develop the program. About 25 teachers participated in the program.

Lessons Learned

1. Relationships with host institution are important.
2. Home institution support is easy when US government grants are available.
3. Home institution support evaporates when grant support ends.
4. Maintaining contacts with students may be useful.

Entrepreneurship Program in Russia

Background - A one week program for university faculty was given at the State *University of Nizhni Novgorod* in 1996. The theme of the program was financing new ventures in a market economy. Course content included finance theory, application of financial theory and small business finance. Course activities included lectures and group problem solving.

Development -The program was part of a US government grant to provide technical assistance and training during Slovakia's transition to a market economy. Relationships were established and visits to facilities occurred during prior visits. These visits established the needed working relationships to develop the program. About 25 university professors participated in the program.

Lessons Learned

1. Relationships with host institution are important.
2. Home institution support is easy when US government grants are available.
3. Home institution support evaporates when grant support ends.
4. Maintaining contacts with students may be useful.
5. Translators don't always correctly capture the meaning.

Other International Programs -- Howard has been involved in other international programs in Ukraine, Malaysia, Russia, Czech Republic, Italy, and Slovakia. The initial presentation will not include programs in these countries. However, discussion during the session may include references to experiences and lessons learned from programs in these countries.

Shawn M. Carraher, the Brewczynski Endowed Chair at Cameron University, is Past President of the Small Business Institute® and has overseen international entrepreneurship research in 103 countries around the world with a focus on tourism and health care industries. He has also completed three Fulbright trips to teach and perform research in Eastern Europe. In his presentation Shawn shall talk about how to use contacts in traditional organizations in order to develop an international program of research using as an example a 59 country project that he completed for a multinational health care organization.

LINKAGES BETWEEN ACADEMIA AND THE COMMUNITY: CONSULTING, STARTUPS, COMMERCIALIZATION, AND ECONOMIC DEVELOPMENT WORKSHOP

Joe Bell, University of Arkansas Little Rock
John Hendon, University of Arkansas Little Rock
Sherry Taylor, Texas Woman's University
Paul Belliveau, Rutgers University
Janet Roderick, University of Arkansas Little Rock

ABSTRACT

The five presenters bring many years of both academic and industry experiences – having worked both sides of the fence so to speak. The workshop will focus upon a series of questions surrounding the process of student and faculty consulting work leading to technology and innovation-based businesses being created in the local economy. The questions include:

- How do you recruit clients for student consulting projects?
- What makes a good consulting project for the students and what makes for a good outcome for the “client”?
- How do you manage both student and client expectations?
- Are business plan competitions important, especially as they relate to the “building out” of a viable business idea?
- How do you take projects to the next level (continued assistance for those individuals/companies that have viable opportunities but whose needs go beyond the capabilities of the student consulting team)?
- When, if ever, should faculty with consulting skills step into the process?
- If the innovation is coming from a research institution, how do you work with them on commercialization and technology transfer?
- Can we, or should we (academic faculty??), make attempts to influence economic development?

THE FLOW

The five presenters will each take a few minutes to share their backgrounds, their reasons for participating on the panel, and finally provide specific comments regarding the topics listed below. Each panelist will be allocated 15 minutes to talk. The intent of the comments is to stimulate a group discussion of 30-45 minutes at the end of the presentations.

How do you recruit clients?

This is a loaded question because not only do some programs have difficulty attracting clients, they have additional challenges in attracting quality clients. Panelists will discuss creating sustainable relationships, utilizing PR, and how best to beat the bushes.

What makes a good consulting project?

A student consulting project will by necessity generally be limited in scale and scope. Some thought must be given to whether the students will be undergraduate or graduate level, but even so, the project must be able to be completed within a single semester (and generally significantly less than a complete semester). What types of projects would generally be considered as large enough, but not too overwhelming?

How do you manage both student and client expectations?

In an SBI consulting arrangement, the contract or letter between the client and students articulates expectations. But when students create business plans for competitions based upon 3rd-party technologies and do not have an agreement in place what are the expectations? Do students have a “right” in the technology or conversely, does the 3rd-party have rights in the business plan? Should such rights be negotiated up front and contracted with the client?

Are business plan competitions important?

Business plan competitions provide tremendous exposure for both the University and the student teams. The process in and of itself has been described as a mini MBA. The financial rewards/incentives in many competitions today exceed \$100,000. Institutions nationally commit significant dollars to support teams and allow them access to competitions around the country. But today many schools have decreasing budgets. Smaller and less well funded programs frequently cannot compete at the level of larger, well-funded programs. What is the community image of these schools and how does it impact faculty?

How do you take projects to the next level? When, if ever, should faculty step in?

The ability of students to take a business plan to the next level is often not within their plans (they only intended to go to the competitions) or not within their competency. Does this open the door for faculty consulting projects? Are there conflicts and if so, how might they be avoided? How heavily does/should consulting factor into tenure and promotion?

How do you work with research institutions on commercialization and technology transfer?

‘The emphasis among universities to reap big financial rewards through licensing and patenting innovations developed by research scientists is actually impeding the development of new technologies and maybe masking the importance of other means of knowledge transfer’, according to researchers at the Ewing Marion Kauffman foundation. (Kauffman, 2007) Are there methods that can be utilized to speed up the commercialization process?

Can, or should, academia make attempts to influence economic development?

Can faculty begin to blur the line between academic responsibilities and making actual contributions to the economic viability of their region? Should participation in regional economic development be considered as a positive or negative force in promotion and tenure documents?

Reference:

Kauffman Foundation Researchers Offer New Approaches in Speeding Transfer of Technology from University Labs to the Marketplace, Thursday April 12, 2007 9:00 AM ET, press release, Ewing Marion Kauffman Foundation.

MICRO STUDENT CONSULTING PROJECTS¹²

Workshop Proposal
2009 Small Business Institute® Annual Conference
Kirk C. Heriot, Columbus State University

Leo Simpson, Seattle University
Ron Cook, Rider University

PURPOSE

The purpose of this workshop is to describe “Micro Student Consulting Projects” as an alternative to traditional field-based student consulting projects. In the workshop, we address the need for this alternative to traditional student consulting programs. We will also describe the program we developed. Lastly, we will explain why this program is an innovative contribution to the way we teach entrepreneurship or small business management.

Need

According to Cook and Belliveau (2006), field-based, student team consulting offers students an opportunity to integrate their academic and work experiences in the creation of a consulting solution for a client’s real world problem. They describe a very systematic way to supervise consulting projects. Figure 1 shows their systematic approach to student consulting.

While Cook and Bellevue (2006) point out that field-based consulting programs have a variety of benefits, they also point out that this pedagogy has a major weakness – field-based consulting requires a number of critical resources, especially time on the part of the instructor to seek out clients, supervise students, coordinate multiple sections, and teach other assigned courses.

Unfortunately, the time constraint described by Cook and Belliveau (2006) is a major issue. In fact, Heriot and Campbell (2002) describe client recruiting and case supervision as major challenges of creating and sustaining a field-based consulting program. The “Mini Consulting Project” is suggested as a means of responding to the time constraints identified by Cook and Belliveau (2006). The Mini field-based student consulting project transfers responsibility for developing the project from the faculty member to the student. This single move changes the dynamic of the project considerably. Figure 2 shows the modified process as contrasted to the process described by Cook and Belliveau. Table 1 compares and contrasts the two approaches to field-based student consulting.

Workshop Agenda

The workshop will describe the process of implementing Mini Student Consulting projects in a course that was taught in the fall semester 2007. The workshop will provide participants with specific examples of the types of projects that students completed. In addition, the workshop will review the procedures that were used to supervise these projects. Next, the workshop will

¹² This workshop may also be considered as a best practices idea. However, it is intended to be hands-on to directly benefit participants. Thus, it is being submitted as a workshop proposal.

contrast this type of consulting from traditional field-based consulting projects. Lastly, the workshop will address specific questions that participants might have.

Takeaways

This workshop will provide participants with an alternative to traditional field-based student consulting. Field-based student consulting is widely recognized as a way to introduce experiential learning into a business program. However, not every instructor has the luxury of using a traditional approach to field-based student consulting as described in the literature (See e.g., Heriot and Campbell, 2002; Cook and Bellevieu, 2006). Some faculty teach four classes per semester or have research expectations. Thus, locating clients and directly supervising student consulting projects is problematic.

Selected References

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