



# Small Business Institute<sup>®</sup>

## 2013

*National Conference Proceedings*

February 14 – 16, 2013

St. Pete Beach, Florida

Vol. 37, No. 1 – Winter 2013

---

# Small Business Institute®

## 37<sup>th</sup> Annual National Conference

### 2013 Conference Proceedings

Includes  
Competitive Papers  
Best Practices  
Workshops

February 14 – 16, 2013  
Sirata Beach & Conference Center  
St. Pete Beach, Florida



## From the *Proceedings* Editor

Welcome to the 37<sup>th</sup> Annual Conference of the Small Business Institute®.

This year we have many outstanding submissions in the *Proceedings* including 28 competitive papers, three best practices, and nine workshops. I would like to say “Thank You” for your contributions that have made this year’s *Proceedings* a wonderful resource for small business researchers and practitioners. You have put a great deal of effort and hard work into your submissions which is evident through the high degree of rigor, thought provoking discussions, and practical implications. Please take time to read through this year’s *Proceedings*. You will find some very interesting papers.

There are many people I would like to thank for their hard work in making this year’s annual proceedings possible. I would like again say thank you to all of the authors for their outstanding submissions. Secondly, I want to thank all of the reviewers who have served diligently and provided thoughtful comments and feedback for the authors. I would also like to thank Todd Mick for his early *Proceedings* draft that included the competitive papers, best practices and workshops. And, a very big thank you goes to Ms. Kim Watkins from East Carolina University for her expertise and generous help in producing the final document and *Proceedings* CD.

Finally, this *Proceedings* would not have been possible without the help and guidance of the SBI Board members, and especially John Hendon, the Program Chair, and Dianne Welsh, our incoming SBI President for 2013-2014. You have been not only a great group of mentors, but also a wonderful group of friends to work with.

Have a great time in the sun!

A handwritten signature in black ink, appearing to read "William C. McDowell".

William C. McDowell  
Proceedings Editor

## COMPETITIVE PAPERS

|  |    |
|--|----|
| <b>A Survey of Seasonality in Small Business</b> .....   | 9  |
| Jeffrey Shields, University of Southern Maine<br>Joyce Shelleman, University of Maine at Augusta   |    |
| <b>Assessing Creativity in Entrepreneurship: Are Creative Individuals<br/>More Likely to Choose Entrepreneurship as a Profession?</b> .....            | 20 |
| John Batchelor, University of West Florida<br>Gerald Burch, Virginia State University  |    |
| <b>Business Planning Education</b> .....   | 29 |
| D. Lynn Hoffman, Metropolitan State University of Denver<br>Nina Radojevich-Kelley, Metropolitan State University of Denver                            |    |
| <b>Buy Local – Restaurant Owners’ Perception, Importance for<br/>Practitioners, and Policy Implications</b> .....                                      | 39 |
| Kathleen Liang, University of Vermont<br>Paul Dunn, University of Louisiana  |    |
| <b>Church Income Regulations to Keep Non-Profits from Losing Their 501-3C</b> .....  | 47 |
| Don Bradley, University of Central Arkansas<br>Luke Pruett, University of Central Arkansas   |    |
| <b>Cultural Differences, Knowledge Conversion and the Championing Strategies</b> .....   | 54 |
| Dmitry Khanin, Texas Tech University<br>Raj Mahto, University of New Mexico  |    |
| <b>Developing Social Media Promotional Strategies in the Casual<br/>Dining Restaurant Industry: A Case Analysis of Montegro’s Italian Grille</b> ..... | 69 |
| Yun-Oh Whang, University of Tampa<br>Dean Koutroumanis, University of Tampa<br>Amy Brownlee, University of Tampa                                       |    |
| <b>Eastern Europe Hotel Small Business Revenue Management<br/>in Economic Downturn</b> .....   | 80 |
| Sjoerd Gehrels, Stenden University   |    |
| <b>Entrepreneurship Training and Prisoner Re-Entry:<br/>Lessons from a Successful Program</b> .....  | 91 |
| Matthew Sonfield, Hofstra University   |    |
| <b>Evaluating the Effects of Business Pre-Planning Coursework on<br/>Student Entrepreneurial Intentions</b> .....                                      | 96 |
| Brittany James, University of Arkansas Little Rock<br>Joseph Bell, University of Arkansas Little Rock  |    |

**Examining the Effectiveness of State Funded Angel Investor** ..... 104  
**Tax Credits: Preliminary Empirical Analysis**  
Monika Platek, University of Arkansas Little Rock  
James Wilbanks, University of Arkansas Little Rock  
John Hendon, University of Arkansas Little Rock  
Joseph Bell, University of Arkansas Little Rock

**Family Business in South America: A Generational Comparison**..... 110  
Matthew Sonfield, Hofstra University  
Robert Lussier, Springfield College

**Guided Student Reflection: A Critical Imperative for Experiential Learning**..... 125  
Bonnie Canziani, University of North Carolina at Greensboro  
Jerrie Hsieh, University of North Carolina at Greensboro  
Wen Chin Hsieh, National Kaohsiung University of Hospitality and Tourism  
Ling-Chen Weng, Meiho University

**Indigenous Entrepreneurship Among the Boruca in Costa Rica: A Cultural Perspective** ..... 137  
Bella Galperin, University of Tampa  
Cecilia McInnis-Bowers, Rollins College

**Is There a Tipping Point in Resource Network Size: How Large is Too Large?** ..... 148  
Bruce Kemelgor, University of Louisville

**Personality as a Moderator of the Relationship Between Organizational Size and Organizational Attraction Perceptions**..... 161  
Stephanie Thomason, University of Tampa  
Amy Brownlee, University of Tampa  
Susan Steiner, University of Tampa

**Promoting Social Entrepreneurship: Harnessing Experiential Learning With Technology Transfer to Create Knowledge Based Opportunities** ..... 173  
Donald Lester, Middle Tennessee State University  
John Lipinski, Middle Tennessee State University

**Small Business Owner Satisfaction with Financial Performance: A Longitudinal Study** ..... 184  
Shanan Gibson, East Carolina University  
William McDowell, East Carolina University  
Michael Harris, East Carolina University

**South American Family Businesses: A Gender-Based Analysis** ..... 192  
Robert Lussier, Springfield College  
Matthew Sonfield, Hofstra University

|   |     |
|---|-----|
| <b>Talent Retention and Organizational Effectiveness Through<br/>Personal Values Fulfillment</b>  | 203 |
| Ilene Ringler, Ilene Ringler Associates   |     |
| <b>The Effect of Transactive Memory Systems (TMS) on<br/>Effective Group Performance of Virtual Teams</b>   | 212 |
| Joy Oguntebi, Rochester Institute of Technology<br>Bob Barbato, Rochester Institute of Technology   |     |
| <b>The Entrepreneur and the Business Venture: The Symbiosis of a Life Cycle</b>   | 220 |
| James Biteman, Tulane University  |     |
| <b>The Impact of Foreign Direct Investment (FDI) on Women’s Entrepreneurship</b>  | 233 |
| Kaustav Misra, Saginaw Valley State University<br>Esra Memili, University of North Carolina at Greensboro<br>Dianne Welsh, University of North Carolina at Greensboro<br>Hanqing Fang, Mississippi State University |     |
| <b>The Impact of Strategic Focus and Previous Business Experience<br/>on Small Business Performance</b>   | 243 |
| Michael Harris, East Carolina University<br>Shanan Gibson, East Carolina University<br>William McDowell, East Carolina University   |     |
| <b>The Importance of Small Business Leader Virtues</b>  | 252 |
| Sandra Lee Flores, Our Lady of the Lake University<br>Mark Green, Our Lady of the Lake University   |     |
| <b>The New Generation of Massively Open Online Courses (MOOC)<br/>and Their Potential Impact on Higher Education Worldwide</b>  | 262 |
| Dianne Welsh, University of North Carolina at Greensboro<br>Mariana Dragusin, Bucharest University of Economics,  |     |
| <b>The Use of Social Networking Sites by Small Business Employers</b>   | 272 |
| Siobhan Mettey, Metropolitan State University of Denver<br>Forrest Carpenter, Metropolitan State University of Denver<br>Aaron Jackson, Metropolitan State University of Denver                                     |     |
| <b>Workplace Learning in Small Business: Developing a Role and Research<br/>Agenda for Personal Development Plans</b>   | 279 |
| Jeffrey Young, Mount Saint Vincent University<br>Wendy Doyle, Mount Saint Vincent University<br>Peter Mombourquette, Mount Saint Vincent University<br>Ned Kelleher, Mount Saint Vincent University                 |     |

## BEST PRACTICES

|   |     |
|---|-----|
| <b>Spartan Trader Retail Entrepreneurship Learning Lab</b> .....  | 291 |
| Dianne Welsh, University of North Carolina at Greensboro  |     |
| <b>Using the SBI Model and Social Media Technology to Promote Nonprofit Education, Advocacy, &amp; Networking Across the Curriculum</b> ..... | 293 |
| Patrick Walker, Lindenwood University   |     |
| <b>What’s in a Name? Programmatic Research with Students</b> .....  | 295 |
| Shawn Carraher, Indiana Wesleyan University   |     |

## WORKSHOPS

|   |     |
|---|-----|
| <b>BusinessUSA.gov Workshop: An Interactive Analysis and Critique of the New Official Government Website with a Focus On Small Business Facts, Resources and Regulation for Academics and Practitioners Using an AACSB-International Attitude About Assurance of Learning</b> ..... | 301 |
| Stephanie Bardwell, Christopher Newport University  |     |
| <b>Critical Governance Insight for Social Entrepreneurs, Nonprofit Advocates, &amp; Other Catalysts Who Work to Change the World</b> .....  | 304 |
| Patrick Walker, Lindenwood University   |     |
| <b>Effective Use of the Librarian in Business Courses</b> .....   | 308 |
| D. Lynn Hoffman, Metropolitan State University<br>William Tietjen, University of Colorado Denver<br>Debora Gilliard, Metropolitan State University of Denver  |     |
| <b>Experiential Learning Projects – A Process Model for Student Consulting</b> .....  | 310 |
| Ron Cook, Rider University<br>Diane Campbell, Rider University  |     |
| <b>Experiential Learning: Integrating the Best Practices of the NSEE into the Classroom</b> .....   | 312 |
| Stephanie Thomason, Amy Brownlee, & Dean Koutroumanis<br>The University of Tampa  |     |
| <b>Talent Retention and Organizational Effectiveness Through Personal Values Fulfillment</b> .....  | 313 |
| Ilene Ringler, Ilene Ringler Associates   |     |
| <b>Teaching Entrepreneurship: A New Financial Template for Preparing Business Plan Financials</b> .....   | 314 |
| William E. Wise, Metropolitan State University of Denver  |     |

**Teaching Opportunity Recognition and Assessing Learning Outcomes**..... 316  
Rebecca J. White, University of Tampa

**What Does the Future of the AACSB Standards Hold?** ..... 319  
Shawn Carraher, Indiana Wesleyan University  
Sarah Carraher, Indiana Wesleyan University

# **A Survey of Seasonality in Small Business**

Jeffrey Shields, University of Southern Maine  
Joyce Shelleman, University of Maine at Augusta

## **Abstract**

Seasonal cycles of demand present major problems, such as cash flow and profitability, for management of small businesses. This paper provides the first known empirical evidence on the cycles of demand experienced and actions taken to manage seasonality among U.S. small businesses. Data were gathered from a survey of seventy-three small business owners. The study provides insight to patterns of cyclical demand, length of phases, causal factors, and the management of seasonality. Results show that much of the adaptive action taken to manage seasonality occurs during the slowest phase. Implications for practice and future research are discussed.

## **Introduction**

Small businesses face major problems related to annual cycles of demand. These cycles of seasonal fluctuations may lead to slow or lost sales, unpredictable business conditions, and cash flow problems which in turn are major obstacles for small businesses managers (Kaufman, 2012; National Federation of Independent Businesses (NFIB), 2004). The swings in sales and business operations resulting from seasonality affect both small business profits and a region's employment situation (Koenig and Bischoff, 2005), with potential implications for small business viability.

Despite its importance for small business management practices, there is no empirical evidence on seasonality from a business management perspective that might provide tested guidance to small business managers and small business consultants who advise business owners. What little is known is derived from economic development and tourism studies (Baum and Hagen, 1999; Butler, 2001) that address economic development policy and offer normative guidelines drawn from theory and qualitative anecdotal evidence (e.g., case studies), with little grounding in systematic empirical study.

At its most basic level, seasonality itself has been poorly defined with respect to small businesses. There is no evidence on the nature of the swings in business activity for small US businesses in the phases such as their timing, duration, and cause. Likewise there is no empirical evidence on the nature of the actions small business owners take to manage or mitigate the effects of seasonality.

This paper addresses this gap in the small business literature by providing empirical evidence on the nature and effects of seasonality in small businesses, gathered from a survey of seventy-three small business owners across a range of industries. Our results include descriptive information on the timing, duration, and causes of the swings in the different phases of seasonality. The results also reveal the frequency of actions small business owners currently take to manage seasonality.

The data provided by this study will benefit both small business owners and small business consultants who offer guidance to business owners. The results offer a current empirically based portrayal of the nature of seasonality and benchmarks for management practice. In addition, they suggest directions for future research into the most effective management practices associated with seasonality.

In the next section of this paper, we review the limited relevant literature on seasonality and small business. This is followed by our methodology, results, and discussion including implications for both practitioners and scholarly research, and conclusions.

## **Review of the Literature**

Seasonality in demand has been defined as “movements in a time series during a particular time of year that recur similarly each year” (Moore, 1989, p.49). Seasonality involves seasons within seasonality: the peak season, two shoulder seasons and the off-peak season (Kennedy and Deegan, 1999)<sup>1</sup>. Businesses may have one or more busy phase during which they will incur a significant percentage of their total annual sales (Radas and Shugan, 1998). As noted in our introduction, the swings in sales and business operations inherent in seasonality may give rise to slow or lost sales, unpredictability of business conditions, and cash flow problems, affecting small business profits and a region’s overall employment picture (Koenig and Bischoff, 2005).

Seasonality is caused by natural and institutional factors (Allock, 1994; Hylleberg, 1992). These may include factors such as weather, timing of holidays, school vacations, and the tax year. Though it frequently is related, seasonality thus is not always tied to the seasons of the year found in nature (i.e., spring, summer, fall, and winter).

Businesses experience both direct and indirect effects from seasonality (Witt, Brooke and Buckley, 1991). Direct effects are the swings in the sales of businesses from direct relatively predictable forces (e.g., a ski resort reliant on cold winter temperatures). Indirect effects are swings in sales of a focal business from the seasonality of other businesses (e.g., a supplier to the ski resort).

The primary strategies suggested to mitigate seasonality include increasing demand outside of the busy phase(s), market diversification, and pricing (Ashworth and Thomas, 1999.) Increasing demand outside the busy phase can include strategies such as scheduling events to draw customers, increasing advertising, or running promotions. Market diversification might involve finding alternative uses for the business’s capacity during the phases other than the busy phase. Examples include actions such as using a landscape truck (a summer activity) to plow snow (a winter activity) or attracting retirees to vacation during the Slow phase. Pricing strategies frequently involve discounting during non-busy phases.

Additional strategies that might be employed by small businesses to manage seasonality are discussed in the revenue management literature (Kimes & Chase, 1998; Shields, 2006). Revenue management is a practice that involves the management of demand and price in order to maximize sales revenues from capacity (Kimes & Chase, 1998). In restaurant revenue management, restaurants change their procedures during periods of high demand from procedures used during periods of low demand (Kimes, Barrash, & Alexander, 1999). These changes made between times of high business volume and low business volume include changes to prices, space, and business hours as well as scheduling events to draw customers (Shields, 2006).

In the next section, the methodology employed for conducting the study is presented.

## **Methods**

### *Sample*

A convenience sample of small businesses was generated by the Small Business Development Center (SBDC) in a northeastern state. The sample consisted of 507 small businesses which had been clients of the SBDC during the prior two years.

---

<sup>1</sup> To avoid confusion, the seasons within seasonality will be referred to hereafter as phases: the busy phase, the shoulder up phase, the shoulder down phase, and the slow phase

A mail questionnaire was used to collect data. Three timed mailings were used following the survey mailing methodology recommended by Dillman, Smyth, and Christian (2008). Respondents received a letter from the SBDC state director informing them that they would be receiving a survey in a few days. The survey was mailed several days later with two cover letters, one from the SBDC state director and one from the principal investigator. Two weeks later, replacement surveys were mailed to those respondents who had not replied to the initial survey mailing. One hundred four surveys were returned yielding a response rate of 20.5%, with 73 usable questionnaires.

Respondents' reported business types were retail (32%); arts, entertainment, and recreation (22%); wholesale (15%); restaurant (12%); agriculture, forestry, hunting, and fishing (9%); tourism-related (6%); lodging (4%). Average annual sales ranged from \$0 to \$49,000. The number of employees ranged from none (33%) to 20 or more employees (5%). Between these extremes, slightly more than a third (38%) of respondents had two to five employees, a fifth (15%) had six to ten employees, 6% had 11-15 employees, and 3% had 16-20 employees.

### *Measures and Analysis*

A questionnaire instrument was developed to measure characteristics of the phases of seasonality and actions taken by small businesses to manage seasonality. Items for the questionnaire were based on the seasonality and revenue management literatures. In addition, the items were based on and incorporated information derived from semi-structured open-ended interviews with 17 SBDC counselors about how their small business clients adapt to seasonality. Interviews generated themes such as the need to make changes to business operations and financing (e.g., borrowing, paying off, saving during off-peak times); knowing when, what, and how much to change inventory levels (i.e., increase or decrease purchasing) during the shoulder up and shoulder down phases; investing in marketing prior to the busy phase; and hiring or laying off employees.

Following the literature, seasonality was viewed from the perspective of four phases: Shoulder up, Busy, Shoulder down and Slow. The *timing of the phases of seasonality* during the calendar year was measured by asking respondents to mark check-off boxes, one for each month in the calendar year, during which their business experienced the Slow, Shoulder up, Busy, and Shoulder down phases of seasonality respectively. The *duration of a phase* was measured by summing the number of calendar year months selected.

The *causes of seasonality* were measured by having respondents mark check off boxes each representing major factors drawn from the literature on seasonality. The respondents were allowed to check as many boxes as they thought applied. The literature suggested that certain actions are taken in certain phases. The frequency of these *actions to manage seasonality* was measured by seven-point Likert type scales anchored by "Never" and "Always." Finally, additional questions gathered demographic information, such as type of business. Data were analyzed using SPSS to produce frequencies and means. In the next section, results of the analysis are presented.

## **Results**

### *Timing of Phases*

Table 1 shows the percent of respondents who indicated that a calendar month was part of a particular phase (i.e., Shoulder up, Busy, Shoulder down and Slow). Figures 1, 2, 3, and 4 show the percentage of respondents who indicated that the calendar month was in a particular phase (e.g., January is a slow month).

Table 1. Percent of Respondents Indicating Months in a Phase

| <b>PHASES OF SEASONALITY</b> |                    |             |                      |             |
|------------------------------|--------------------|-------------|----------------------|-------------|
| <b>Month</b>                 | <b>Shoulder Up</b> | <b>Busy</b> | <b>Shoulder Down</b> | <b>Slow</b> |
| January                      | 5.5%               | 6.8%        | 29.6%                | 44.6%       |
| February                     | 6.8%               | 8.2%        | 15.5%                | 54.0%       |
| March                        | 8.2%               | 8.2%        | 12.7%                | 52.7%       |
| April                        | 23.3%              | 9.6%        | 8.5%                 | 41.9%       |
| May                          | 39.7%              | 12.3%       | 7.0%                 | 31.1%       |
| June                         | 53.4%              | 23.3%       | 11.3%                | 13.5%       |
| July                         | 30.1%              | 57.5%       | 14.1%                | 14.9%       |
| August                       | 26.0%              | 63.0%       | 4.2%                 | 10.8%       |
| September                    | 21.9%              | 37.0%       | 25.4%                | 9.5%        |
| October                      | 17.8%              | 30.1%       | 31.0%                | 17.6%       |
| November                     | 20.5%              | 30.1%       | 25.4%                | 16.2%       |
| December                     | 13.7%              | 37.0%       | 21.4%                | 21.9%       |

Figure 1. Timing of the Shoulder Up Phase Percent of Responses by Month (N = 73)

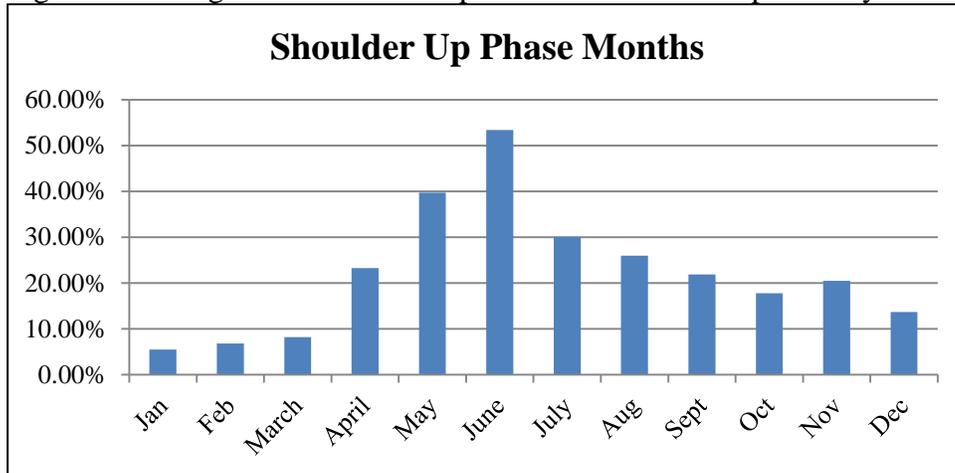


Figure 2. Timing of the Busy Phase Percent of Responses by Month (N = 73)

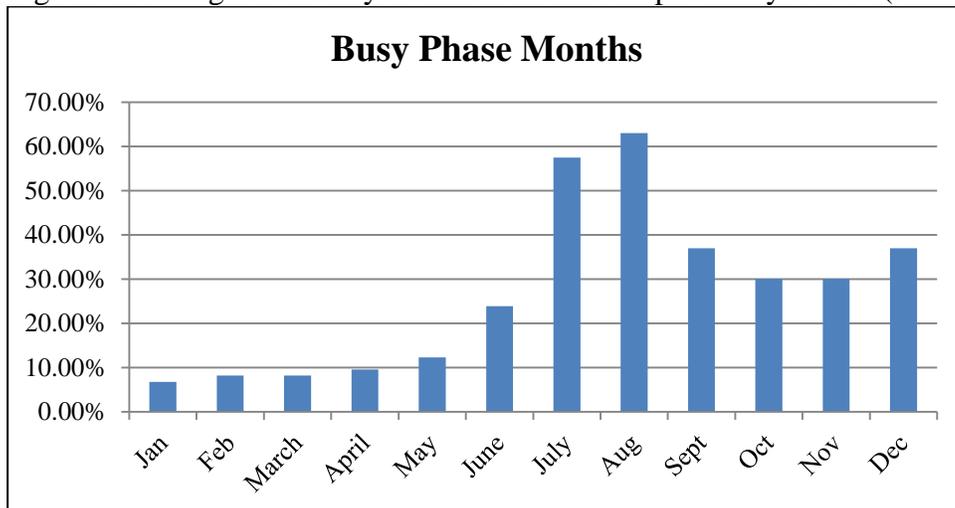


Figure 3. Timing of the Shoulder Down Phase Percent of Responses by Month (N = 73)

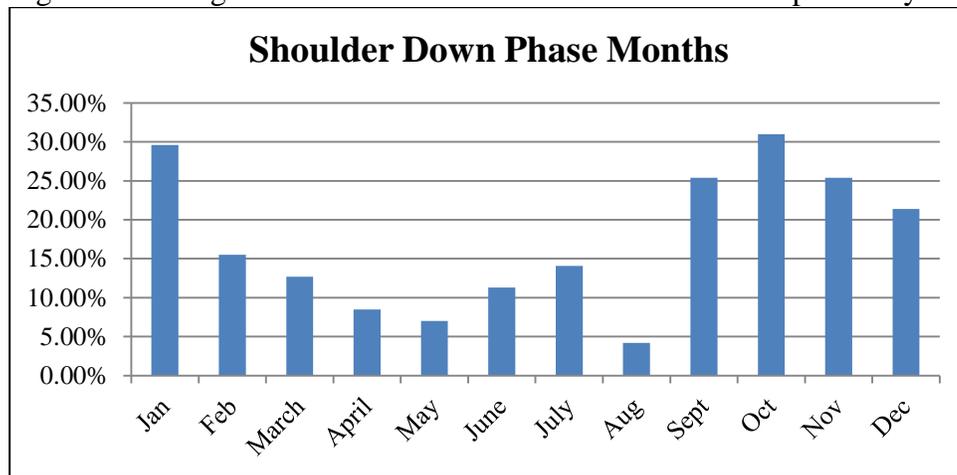
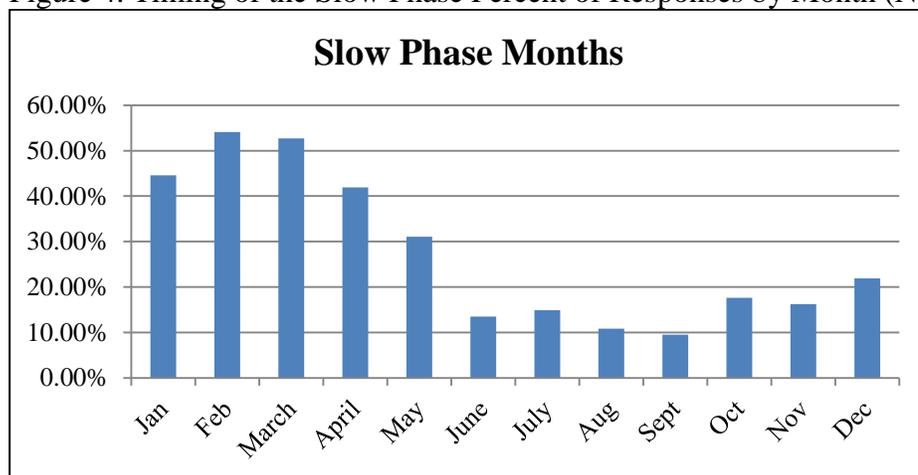


Figure 4. Timing of the Slow Phase Percent of Responses by Month (N = 73)



*Duration of Phases*

Figures 5, 6, 7, and 8 show how long each phase lasted (i.e., number of months) for the respondents in this sample.

Figure 5. Shoulder Up Phase Duration Percent of Responses by the Number of Months (N = 73)

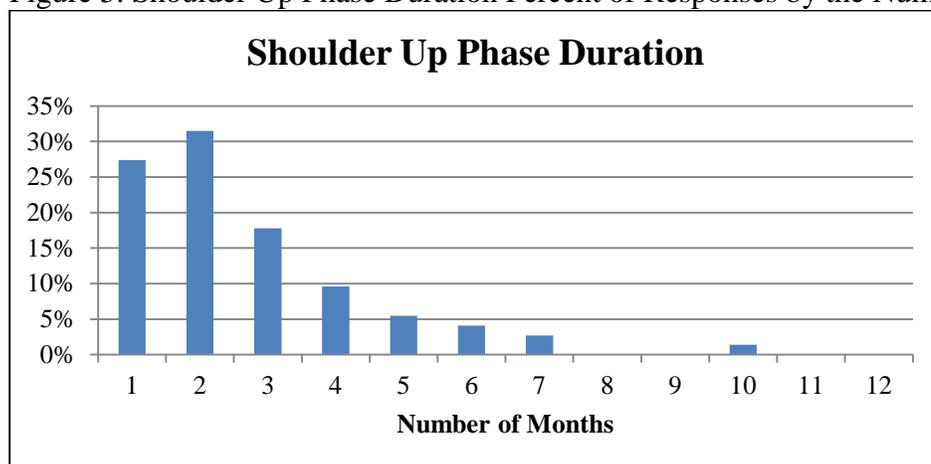


Figure 6. Busy Phase Duration Percent of Responses by the Number of Months (N = 73)

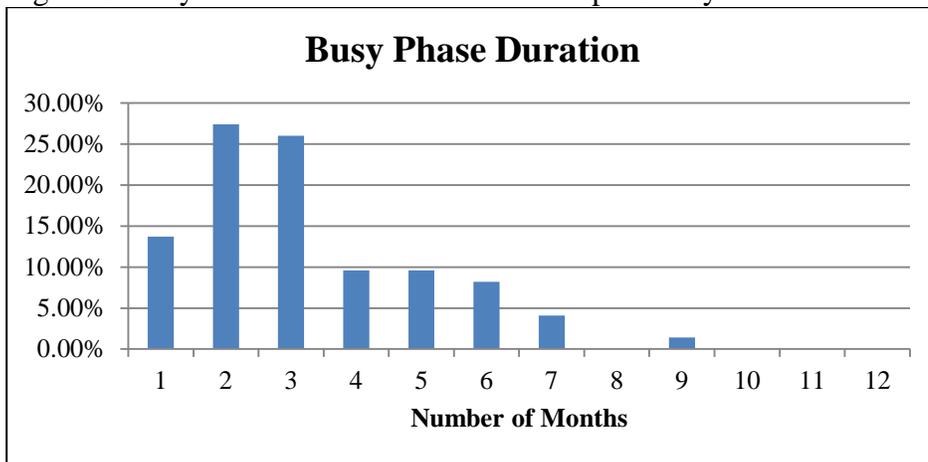


Figure 7. Shoulder Down Phase Duration Percent of Responses by the Number of Months (N = 73)

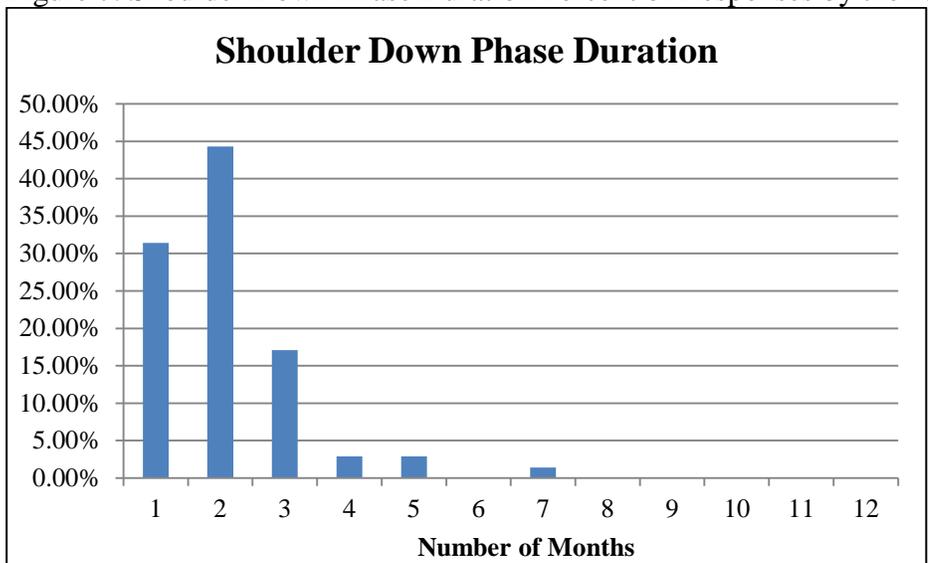
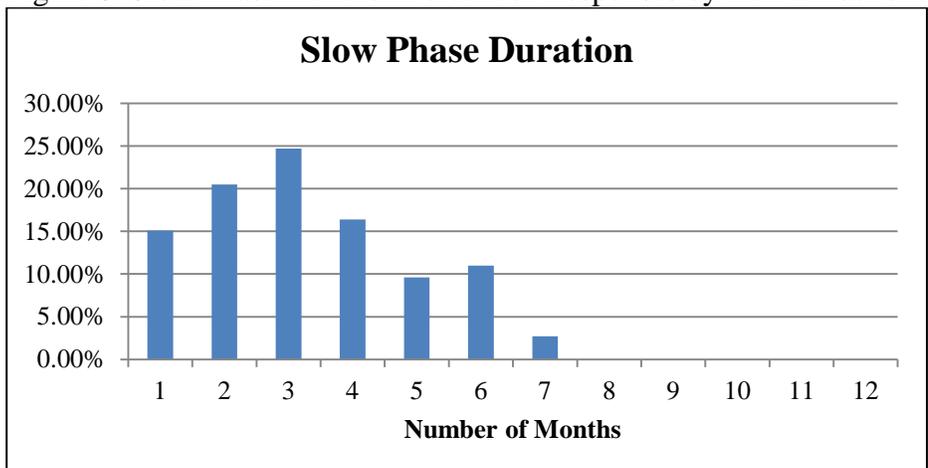


Figure 8. Slow Phase Duration Percent of Responses by the Number of Months (N = 73)



### *Causes of Seasonality*

The causes of uneven sales associated with seasonality by the percent of total responses across all categories were weather 29.59%, vacationing customers 25.44%, holiday weekends 18.93%, school year 12.43%, business-to-business sales 8.88%, and inventory availability 4.73%.

### *Timing of Actions to Manage Seasonality*

Table 2 Panel A shows the mean frequency with which 27 specific actions were taken to manage seasonality, in descending order. These ranged from “plan for next year” (mean = 5.96) to “expand space” (mean = 1.90).

Table 2. Ranking of the Means of the Frequencies of Actions to Manage Seasonality (N = 73)

Panel A: Overall Rank

| ACTION                                 | MEAN | PHASE         |
|--|------|---------------|
| Plan for next year                     | 5.96 | SLOW          |
| Works on business-related capabilities | 5.51 | SLOW          |
| Decrease inventory Purchases           | 5.40 | SHOULDER DOWN |
| Increase inventory Purchases           | 5.38 | SHOULDER UP   |
| Work on maintenance                    | 5.19 | SLOW          |
| Set aside money                        | 5.06 | BUSY          |
| Increase inventory Purchases           | 4.48 | BUSY          |
| Make efforts to extend the busy season | 4.39 | BUSY          |
| Try to retain critical Employees       | 4.38 | SLOW          |
| Decrease employee Hours                | 4.14 | SHOULDER DOWN |
| Increase employee Hours                | 3.95 | SHOULDER UP   |
| Increase advertising                   | 3.91 | SHOULDER UP   |
| Run promotions                         | 3.81 | SHOULDER DOWN |
| Discount                               | 3.75 | SHOULDER DOWN |
| Decrease hours open                    | 3.71 | SHOULDER DOWN |
| Owner takes a vacation                 | 3.61 | SLOW          |
| Decrease advertising                   | 3.54 | SHOULDER DOWN |
| Increase hours open                    | 3.48 | BUSY          |
| Run promotions                         | 3.45 | SHOULDER UP   |
| Increase hours open                    | 3.39 | SHOULDER UP   |
| Lay off employees                      | 3.33 | SHOULDER DOWN |
| Hire additional employees              | 3.28 | BUSY          |
| Hire additional employees              | 3.12 | SHOULDER UP   |
| Discounts                              | 2.66 | SHOULDER UP   |
| Increase prices                        | 2.49 | BUSY          |
| Closes down                            | 2.21 | SLOW          |
| Expand space                           | 1.90 | BUSY          |

The rankings from Panel A were broken into quartiles. Then the number of actions by seasonality phase were tallied within each quartile, as shown in Panel B. The most frequently employed actions occur during the Slow phase while the least fall in the Busy phase.

Panel B: Means of the Frequencies of Actions to Manage Seasonality within Quartiles

|    | Slow Phase | Shoulder Up Phase | Busy Phase | Shoulder Down Phase |
|----|------------|-------------------|------------|---------------------|
| Q1 | 111        | 1                 | 11         | 1                   |
| Q2 | 1          | 11                | 1          | 111                 |
| Q3 | 1          | 11                | 1          | 111                 |
| Q4 | 1          | 11                | 111        | 1                   |

Table 3 details the actions taken to manage seasonality, ranked in descending order within their respective phases. The most frequent action within each phase is “increase inventory purchases” (Shoulder up, mean = 5.38), “set aside money” (Busy, mean = 5.06), “decrease inventory purchases” (Shoulder down, mean = 5.40), and “plan for next year” (Slow, mean = 5.96).

Table 3. Ranking of the Means of the Frequencies to Manage Seasonality within Phases (N = 73)

| <b>SHOULDER UP PHASE</b>               | <b>MEAN</b> | <b>SHOULDER DOWN PHASE</b>       | <b>MEAN</b> |
|--|-------------|----------------------------------|-------------|
| Increase inventory purchases           | 5.38        | Decrease inventory Purchases     | 5.40        |
| Increase employee hours                | 3.95        | Decrease employee Hours          | 4.14        |
| Increase advertising                   | 3.91        | Run promotions                   | 3.81        |
| Run promotions                         | 3.45        | Discount                         | 3.75        |
| Increase hours open                    | 3.39        | Decrease hours open              | 3.71        |
| Hire additional employees              | 3.12        | Decrease advertising             | 3.54        |
| Discounts                              | 2.66        | Lay off employees                | 3.33        |
| <b>BUSY PHASE</b>                      |             | <b>SLOW PHASE</b>                |             |
| Set aside money                        | 5.06        | Plan for next year               | 5.96        |
| Increase purchases                     | 4.48        | Work on business capabilities    | 5.51        |
| Make efforts to extend the busy season | 4.39        | Work on maintenance              | 5.19        |
| Increase hours open                    | 3.48        | Try to retain critical employees | 4.38        |
| Hire additional employees              | 3.28        | Owner takes a vacation           | 3.61        |
| Increase prices                        | 2.49        | Closes down                      | 2.21        |
| Expand space                           | 1.90        |                                  |             |

### Discussion

The results of this study show that the phases of seasonality generally conform to the calendar year - with the Shoulder up in the spring, the Busy phase in summer, the Shoulder down phase in the fall and the Slow phase in winter (see Figures 1-4). This pattern was observed although only about a tenth of the small businesses were directly and predominantly involved in tourism (i.e., fewer than 6% reported they were tourism-related and 4% indicated they were lodging businesses which might be presumed to be at least somewhat tourism-related).

The observed pattern of seasonal phases may be related to the causes for seasonality. Nearly a third of businesses (29.59%) reported that weather was the cause of the unevenness in their sales. Vacationing customers were close behind, with a quarter of respondents (25.44%) seeing that as a primary cause of cyclical demand. Holiday weekends (18.93%) and the school year (12.43%) were also ranked high. It is logical that these causes for fluctuations related to weather and time off for consumers would result in the businesses' Busy phase being during the best weather, most vacations, and when school is out.

Although the data indicate that phases appear to follow the calendar year, a perhaps surprising result is that most of the respondents do not close their businesses during the Slow phase. Less than one-third of the respondents reported that they are closed during the months of January through April, the months most frequently noted as slowest.

The phases also vary in duration (see Figures 5-8), consistent with the causal factors of weather and customer time off. As mentioned above (see figures 1-4), the Shoulder up phase is most frequently in May and June, the Busy phase is most frequently in July and August, the Shoulder down phase is from September through December, and the Slow phase is between January and April, as noted above. The Shoulder up (2 months) and Busy phases (2 months) are relatively short in comparison to the Shoulder down (4 months) and Slow (4 months) phases. This suggests that small business owners have a relatively short time span within which to generate sufficient revenues and profits to sustain them over the duration of the slowest cycles of demand that come each year.

The top five actions taken most frequently to manage seasonality included, from most to least used, “plan for next year”, “work on business-related capabilities” (e.g., skills, website), “decrease inventory purchases”, “increase inventory purchases”, and “work on maintenance” (see Table 2, Panel A). None of these are directly related to human resource, marketing, or pricing issues.

The Shoulder up and Shoulder down phases have the fewest number of actions in the top quartile (see Table 2, Panel B). Over all, these transition phases between the Slow and Busy phases, show the least frequent actions to adjust to the changes in business activity between the Busy and the Slow phases. Within the Shoulder up phase, seasonal businesses most frequently increase their purchases, employee hours, advertising, and run promotions as they ramp up their business (see Table 3).

The Busy phase has the most actions in the bottom quartile, with such activities as setting aside money, increasing purchases, and making efforts to extend the busy season. It might be that owners are too preoccupied meeting consumer demand during this phase to manage the business by taking more frequent action to adjust to the Busy phase.

The top action in the Shoulder down phase is decreasing inventory. Most actions in this phase fall into the second and third quartiles. These include human resource and marketing issues, e.g., decreasing employee hours, running promotions, etc. During the Shoulder down phase, the most frequently taken actions are decreasing purchases and employee hours.

The Slow phase has the most actions in the top quartile of actions taken to manage seasonality, with three of those most frequently reported. During the Slow phase, the most frequent activities are to plan for next year, work on business-related capabilities (such as skills and websites), and work on maintenance. Clustering actions to manage seasonality during the Slow phase could mean several things. It is possible that these business owners are so stretched meeting consumer demand during their Busy phase that they simply lack time to do more. It may be that business owners are not doing enough during the other phases to prepare themselves for the next cycle. In either case, the activity during the Slow phase helps to explain why the majority of businesses in the sample do not close during the Slow phase – they appear to need this downtime to prepare for the rest of the year.

### **Implications**

This study has implications for practice. The data provide evidence that small businesses that are affected by seasonal demand might do more to manage the Shoulder up, Busy, and Shoulder down phases of seasonality. Educational programs should be reviewed and/or developed to emphasize the skills and concepts necessary to enable these small business owners to take appropriate actions during each phase to make the most out of the opportunities and threats in each of the phases of seasonality (e.g., increasing sales, decreasing purchases). These programs need to be scheduled during the Slow phase when small business owners have the time to complete them.

Results of the study also offer small business owners a snapshot of actions currently taken by other small business owners to manage seasonality, such as focusing more on planning, though they need also be aware that the most frequently taken actions may not be the most appropriate actions given the situation. For small business counselors, the results suggest the areas where small business owners are not expending efforts when they should be to be most successful at managing sales cycles, such as discounting during the Shoulder up phase to increase sales or hiring additional employees during the Busy phase (see Table 2, Panel A).

Future research might examine seasonality in other types of businesses, larger small businesses, or geographic regions. While this study did include a range of businesses, it was limited to very small businesses in one state in the northeastern U.S. where weather ranges from hot too cold throughout the calendar year. It would provide additional insight to study seasonality issues among small businesses in a place with a warm year-round climate.

Additional research might examine the cash flow and performance effects of actions during the different phases of seasonality. In addition, a longitudinal study could measure the longer term effects of seasonality on small business survival and actions to manage the phases of seasonality.

### Conclusions

This paper has provided the first known survey information on the nature of the swings in seasonality for small U.S. businesses. The phases of seasonality follow the calendar year and vary in length. This is an apparent reflection of the impact of weather and the school year on vacations - with real consequences on small business sales even in non-tourism businesses.

Our results also show that most of the adaptive action to manage seasonality takes place during the Slow phase. The least amount of management attention to seasonality is during the Shoulder up and Busy phases. Yet these are the two phases in which a small business can deliberately better position itself to maximize sales as its business activity ramps up and then experiences its busiest phase.

Policy makers and small business counselors should schedule programs in the winter and should emphasize actions that small businesses can take to adjust to, manage, and make the most out of each phase that their business experiences. There is plenty of room for practice since the seasons always swing back around.

### References

- Allock JB. 1994. Seasonality. In *Tourism Marketing and Management Handbook*. Witt S.F. & L. Moutinho (eds.), Prentice Hall: New York; 86-92.
- Ashworth, J. & B. Thomas (1999). Patterns of seasonality in Employment in Tourism in the UK. *Applied Economic Letters*, 6, 735-739.
- Baum, T. and Hagen, L. (1999). Responses to Seasonality; the Experiences of Peripheral Destinations. *International Journal of Tourism Research*, 1, 299-312.
- Butler, R.W. (2001). Seasonality in Tourism: Issues and Implications. In *Tourism the State of the Art*. Seaton A.V. et. al. (eds.) Chichester: Wiley.
- Dillman, D. A. Smyth, J.D., and Christian L.M. *Internet, Mail, and Mixed-Mode Surveys: The Tailored Design Method* 3rd edition Wiley 2008.
- Hylleberg, S. (1992) General Introduction. In *Modeling Seasonality*. Hylleberg, S. (ed.) Oxford University Press, 3-14.
- Kauffman (2011). "An Overview of the Kauffman Firm Survey: Results from 2010 Business Activities" *Kauffman Foundation* from the internet 09/06/12  
[http://www.kauffman.org/uploadedfiles/kfs\\_2012\\_report.pdf](http://www.kauffman.org/uploadedfiles/kfs_2012_report.pdf) September 6, 2012.

- Kennedy, E. and J. Deegan (1999) Seasonality in Irish Tourism, 1973-1995. In *Seasonality in Tourism*. Baum T. and S. Lundtorp (eds.), New York: Pergamon, 51-74.
- Kimes, S.E. & Chase, R.B. (1998). The Strategic Levers of Yield Management. *Journal of Service Research*, 1(2), 156-166.
- Koenig-Lewis, N. and E.E. Bischoff (2005). Seasonality Research: State of the Art. *International Journal of Tourism Research*, 7, 201-219.
- Moore, T. W. (1989). *Handbook of Business Forecasting*. London: Gower.
- NFIB, (2004). Small Business Problems and Priorities. National Federation of Independent Business.
- Rada, S. and S.M. Shugan (1998). Seasonal Marketing and Timing of New Product Introductions. *Journal of Marketing Research*, (August), 296-315.
- Shields, J. (2006). Restaurant Revenue Management: An Investigation into Changing Standard Operating Procedures to Maximize Revenue. *Journal of Small Business Strategy*, 17(1), 77-85.
- Witt, S. F., M.Z. Brooke, and P.J. Buckley (1991). *The Management of International Tourism*. Boston: Unwin Hyman.

# **Assessing Creativity in Entrepreneurship: Are Creative Individuals More Likely to Choose Entrepreneurship as a Profession?**

John Batchelor, University of West Florida  
Gerald Burch, Virginia State University

## **Abstract**

In this study, we argue that entrepreneurship is a fruitful pursuit for creative individuals. Using a sample of 152 undergraduate students, we investigated to see if individual creativity predicts one's intentions to enter into the field of entrepreneurship. Specifically, we looked at one's ability to think divergently (the generation and elaboration upon ideas) and creative personality in our conceptualization of what it means to be "creative." Our findings show that divergent thinking was able to predict entrepreneurial intentions alone and that creative personality was best used to increment what is explained by divergent thinking. These findings are discussed along with implications for practitioners and academics.

## **Introduction**

Creativity and its resulting innovation, due to creative employees (Florida, 2004), is shown to be linked to the ability of organizations to perform, grow, and, most importantly, survive (Mumford, Hester, & Robledo, 2011). For years, many managers and scholars have worked on identifying, selecting, and fostering creative individuals based on variables such as personality, cognitive processes, and environments that lead to increased practical innovations that align with the goals of organizations (Acar & Runco, 2011; Baer, Oldham, Jacobsohn, & Hollingshead, 2008; Farr, 1990; Hocevar & Bachelor, 1989; Reiter-Palmon, Herman, & Yammarino, 2008; Robert & Cheung, 2010).

Herein, we argue that entrepreneurship is a fruitful avenue for creative individuals to flourish and that creative individuals will be more attracted to this form of employment than others. This argument is supported by the findings of Baron and Tang (2009) who, with a sample of entrepreneurs, found that creativity is positively related to firm innovation. Further, they found that this relationship was stronger in dynamic environments, a type of environment often encountered by entrepreneurs. This sentiment is echoed by Ward (2004), who notes that novelty and usefulness, two key aspects of creativity, are important to entrepreneurship. Herein, we argue that the dynamic situations, or what Chatman (1989) terms "weak," encountered by entrepreneurs require creative solutions, which should be ideally suited for creative individuals.

The purpose of this article is to investigate how creativity functions outside of the traditional organization and if it can be used to predict which individuals will choose to forgo traditional employment in favor of entrepreneurial ventures. Specifically, we intend to investigate how to identify creative individuals, using established creativity measures, and determine if highly-creative individuals are more likely to be attracted to entrepreneurship.

## **Entrepreneurial Conceptualization**

Herein, we define an entrepreneur as a primary owner of a business who is not employed by another organization (Brockhaus, 1980). Like the entrepreneur, entrepreneurship itself can be conceptualized in many fashions. We chose to follow the recommendations of Gartner (1988) and Davidsson and Wiklund (2001), which view entrepreneurship as including the establishment of new organizations and the exploitation of opportunity. Thus our definition of entrepreneurship, with respect to entrepreneurial propensity, is the ownership of a independently owned business(es), their owner-managers, and their efforts to exploit opportunity (Davidsson, 2005).

## **A Unique Group**

Entrepreneurs have many distinct characteristics that separate them from managers employed by traditional organizations (Zhao & Seibert, 2006). First, with respect to personality, entrepreneurs are higher on conscientiousness and openness, and lower on neuroticism and agreeableness than managers (Zhao & Seibert, 2006). With respect to creativity, the foci of this investigation, entrepreneurs are shown to be more creative, innovative, and likely to embrace new ideas than other business people (Zhao & Seibert, 2006; See Griest, 2011 and Pryntz-Nadworny 2011 for discussion).

Entrepreneurs are generally more motivated to achieve (Stewart & Roth, 2007) and less constrained by organizational systems and structures than other business people (Daily, McDougal, Covin, & Dalton, 2002). We believe these are key aspects as to why creative individuals may be more attracted to entrepreneurship than others. In that, by being the head of the organization, “their own boss,” they are more free to be creative than others and more motivated to develop and exploit innovation in order to achieve their goals. Yet, this freedom does come at somewhat of a price.

The freedom entrepreneurs possess is the result of a lack of organizational restraints placed upon them by superiors and their organization, such as standard operating procedures or organizational norms, which traditional managers face. This results in entrepreneurs facing mostly “weak” situations, where there is large variation, or latitude, in how individuals can handle a situation (Chatman, 1989), as opposed to “strong” situations where there is little room for individual variation in handling situations, which is often the case for traditional managers. For example, when encountering a customer who is unhappy with his new purchase, a manager employed by a large organization may be very limited, by his or her organization, in what he or she can do to resolve the situation. These limitations may involve hard rules such as not allowing a return because the organization's rules state that merchandise cannot be returned once it has been opened or used. When confronted with the same situation, an entrepreneur is free to do whatever he or she sees fit because they set their own rules and are free to change them as they please.

Markman and Baron (2003) echo this perspective, arguing that entrepreneurs do indeed face mostly weak situations. Stewart and Roth (2007) elaborate on this point by discussing how founding entrepreneurs must create a business where nothing existed before, define that business and what services or products it will offer, obtain the requisite resources, and establish how the new organization will operate. To do this, entrepreneurs must be creative or they will not succeed, and are very likely to not emerge from entrepreneurial nascence. Thus, entrepreneurs are, by necessity, better at making decisions under conditions of uncertainty and ambiguity than others (Bierly, Kolodinsky, & Charette, 2009), that is: conditions under where creative practical solutions are required to succeed.

## **The Right Person for the Right Job**

Not all individuals are equal when it comes to creativity. As with any other psychological construct, individuals are spread throughout the continuum of creative ability levels. One way to assess creativity level is by measuring one's divergent thinking ability. Divergent thinking entails the process that individuals undertake when generating ideas (Acar & Runco, 2011). This process consists of four basic components. First, fluency which is the number of new ideas one can generate in a given amount of time (Torrance, 1966). Second is flexibility, which reflects one's ability to incorporate different perspectives when generating ideas (Baer et al., 2008). Third, originality deals with the uniqueness of one's ideas (Guilford, 1950). Finally, elaboration is the ability to add detail to preexisting ideas (Torrance, 1966). Thus creativity can be conceptualized as a multi-faceted construct.

We propose that individuals which possess the ability to think divergently will be more attracted to entrepreneurship than others. Although we are not aware of prior empirical testing of this specific relationship, there is substantial support for this idea. Innovation is argued to be a crucial ingredient to new venture creation (Baron & Tang, 2011), and an essential component of our definition of entrepreneurship. Others have gone as far as to state that divergent thinking is so closely related to entrepreneurship that the two concepts are synonymous (Day, Reynolds, & Lancaster, 2006).

Creativity and innovation are two closely related constructs that must coexist to be. Creativity is the generation of ideas and innovation is the exploitation of these ideas (Wilson & Stokes, 2006). Hence, creativity is, by necessity, a precondition for innovation. Because of the weak situations frequently encountered by entrepreneur, creativity is essential for this type of employment because there is no organizational set of standard operating procedures to follow when problems arise. Hence creativity is positively related to performance, in the context of entrepreneurship (Baron & Tang, 2011). Thus it stands to reason that, on average, creative individuals should be more likely to become successful entrepreneurs and more attracted to the field than less creative individuals.

In general, individuals choose employment that places them in situations that are best suited for their personalities (Stewart & Roth, 2007). This is the basic premise of Person-organization Fit Theory which argues that individuals choose their line of work based on how their individual attitudes and abilities fit in with the culture and other attributes of an organization. Person-entrepreneur Fit Theory (Markman & Baron, 2003) is a variation of Person-organization Fit that proposes that some individuals will “fit” the role and responsibilities of an entrepreneur better than others and more likely to succeed and be attracted to the field of entrepreneurship. This is the impetus for our first hypothesis.

Hypothesis 1: Creativity is a positive predictor of entrepreneurial intentions.

We agree that one key aspect of “fitting” into the role of an entrepreneur is the ability to handle “weak” situations which requires creative solutions. The central aspect of creativity is the ability to generate ideas. This “ideation” is termed divergent thinking and centers on one’s ability to generate appropriate answers to problems (McCrae, 1987). As our previous discussion on person-entrepreneur fit argued, people with the prerequisite abilities for entrepreneurship will be more attracted to it. We then argued that creativity is one of these abilities. Our next hypothesis drills down to test if this key aspect of creativity, the ability to generate ideas (divergent thinking), alone predicts entrepreneurial intentions. Thus, through the lens of Person-entrepreneur Fit Theory, we propose that creative individuals who possess the ability to think divergently will be more attracted to the field of entrepreneurship, because they possess the prerequisite abilities necessary to perform this role, as formally stated in the following hypotheses.

Hypothesis 2: Increased individual divergent thinking, and the dimensions of divergent thinking, positively predicts one’s entrepreneurial intentions.

Up to this point it is argued that creative individuals should be more attracted to entrepreneurship than others, and that divergent thinking is key to this process. But, there must be more to being creative than simply generating ideas. For this reason, we look to the personality component of creativity. For over thirty years, personality has been shown to reliably predict creativity (Gough, 1979; Oldham & Cumming, 1996). In general, industrial and organizational psychologists and management researchers think of personality in terms of the Big Five personality traits of openness to new experiences, conscientiousness, extraversion, agreeableness, and neuroticism (Costa & McCrae, 1992). But, meta-analysis has shown that there is a creative component of personality that is not captured by this conceptualization (Feist, 1998). Thus a personality trait of “creativity” is shown to have divergent validity from the Big Five components of personality, which means that creativity is substantiated as a personality trait in its own right.

Although divergent thinking is paramount to entrepreneurial success, with reference to creativity, it may not capture all of what it means to be creative. Thus, we propose that one's creative personality can increment divergent thinking in predicting one's entrepreneurial intentions, as stated in the following hypothesis.

Hypothesis 3: Creative personality is positively related to entrepreneurial intentions and increments what is explained by divergent thinking.

### **Methods**

This study included 152 undergraduate respondents from a large southeastern public university. All respondents were given identical measures. The undergraduates in this study were given extra credit for their participation and were free to refuse participation without penalty.

#### *Dependent variable*

The outcome variable of interest in this study is entrepreneurial intention; that is, the intent of one to start his or her own business one day. For this measure we used two questions from Crant (1996) and two questions from Luthje and Franke (2003) to comprise one four item scale. An example question is, "I will probably own my own business one day." The reliability for this scale in this study is .90.

#### *Independent variables*

In this study we are interested in how well one's creative personality and creative ability predict entrepreneurial intentions. Creative personality was measured using Gough's (1979) Creative Personality Scale (CPS). This scale is comprised of a list of 30 adjectives. Respondents are asked to check the adjective that they believe describe them best. The reliability for this variable is reported at .70 (Oldham & Cummings, 1996).

The divergent thinking aspect of creativity, conceptualized in this study as creative ability, was measured using the Abbreviated Torrance Test for Adults (ATTA), which is a short form of the original Torrance Test of Creative Thinking (TTCT) (Torrance, 1966). These measures have successfully delivered consistent results when predicting creative performance for over four decades (Crammond, Matthews-Morgan, Bandalos, & Suo, 2005). The test consists of presenting respondents with three figures and asking them to create lists, produce figures, and/or provide titles. The ATTA used in this study was comprised of four components: fluency, originality, elaboration, and flexibility. The reliabilities for these measures in this study were all high, .99, .97, .97, and .99 respectively.

#### *Control variables*

To ensure that our results are not spurious, we included two controls to ensure that our concepts of interest (creative personality and divergent thinking) are truly responsible for our findings. First we control for the "Big Five" personality traits (openness to new experience, conscientiousness, extraversion, agreeableness, neuroticism) most often investigated by management psychologists. Although the discriminate validity of creative personality, from the "Big Five," is established by meta-analysis (Feist, 1998), we included 20 items of the Mini-IPIP (Donnellan, Oswald, Baird, & Lucas, 2006) to ensure that our analysis is truly evaluating the creativity associated with one's creative personality rather than other personality constructs. This measure is a shortened version of the original International Personality Item Pool (IPIP) developed by Goldberg (1999). The alpha reliabilities for openness, conscientiousness, extraversion, agreeableness, and neuroticism in this study are .75, .67, .82, .86, and .70 respectively.

## Analysis

Hierarchical regression analysis and correlations were used to test the hypotheses herein. In all, four models were tested: Model 1, a control model that included only the six control variables; Model 2, composed of the control variables in step 1 and CPS in step two; Model 3, composed of the control variables in step 1 and the ATTA components in step 2; and Model 4, composed of the control variables in step 1, CPS in step 2, and ATTA in step 3. For each model, a  $R^2$  and  $R^2$  change is reported.

Second we controlled for cognitive ability. Because of cognitive abilities pervasive influence on life success (Schmidt, 2002) and its frequent use in psychological research we believed that control of this variable is necessary to show that the variables in our study increments this construct. Cognitive ability was proxied with standardized test score averages for all available participants.

## Results

Tables 1 and 2 summarize our findings. Table 1 presents the zero-order correlations between all variables in our study. Table 2 summarizes the results of the three primary models used to test our hypotheses and one post-hoc model. Hypothesis 1 asserted that creativity is a positive predictor of entrepreneurial intentions. Table 1 supports this hypothesis, showing a positive significant relationship between entrepreneurial intentions and both the divergent thinking (ATTA) (.161,  $p < .05$ ) and creative personality (CPS) (.348,  $p < .001$ ) aspects of creativity.

Table 1. Correlations

|                      | Mean   | Std. Dev. | 1        | 2        | 3       | 4        | 5       | 6        | 7       | 8       | 9       | 10      | 11     | 12      |
|----------------------|--------|-----------|----------|----------|---------|----------|---------|----------|---------|---------|---------|---------|--------|---------|
| 1. Cognitive ability | 15.290 | 3.858     |          |          |         |          |         |          |         |         |         |         |        |         |
| 2. Conscientiousness | 5.283  | 1.223     | .087     |          |         |          |         |          |         |         |         |         |        |         |
| 3. Agreeableness     | 5.313  | .894      | -.293*** | .013     |         |          |         |          |         |         |         |         |        |         |
| 4. Neuroticism       | 4.474  | 1.387     | .192*    | .329***  | -.099   |          |         |          |         |         |         |         |        |         |
| 5. Openness          | 5.408  | 1.071     | -.130    | .116     | .490*** | -.041    |         |          |         |         |         |         |        |         |
| 6. Extraversion      | 4.829  | 1.464     | -.318*** | -.072    | .501*** | .145     | .399*** |          |         |         |         |         |        |         |
| 7. Fluency           | 16.787 | 2.377     | .242***  | -.280*** | -.001   | -.062    | .115    | -.268*** |         |         |         |         |        |         |
| 8. Originality       | 16.711 | 2.070     | .030     | -.275*** | .217**  | -.196*   | .107    | -.250**  | .641*** |         |         |         |        |         |
| 9. Elaboration       | 15.842 | 3.636     | -.146    | -.165*   | .296*** | -.307*** | .544*** | .241**   | .461*** | .254**  |         |         |        |         |
| 10. Flexibility      | 15.737 | 2.332     | .167*    | -.015    | -.202** | -.225**  | .070    | -.250**  | .599*** | .204**  | .489*** |         |        |         |
| 11. ATTA avg.        | 65.026 | 7.975     | .063     | -.235*** | .132    | -.275*** | .331*** | -.108    | .850*** | .626*** | .802*** | .747*** |        |         |
| 12. CPS              | 7.474  | 3.891     | .148     | -.037    | .378*** | -.100    | .681*** | .263***  | .068    | .103    | .357*** | .093    | .237** |         |
| 13. Ent. intentions  | 4.509  | 1.972     | .055     | -.180*   | -.015   | -.213    | .297*** | .195**   | .132+   | .147+   | .158*   | .041    | .161*  | .348*** |

\* $p < .05$

\*\* $p < .01$

\*\*\* $p < .001$

Hypothesis 2 is intended to further refine the findings of Hypothesis 1 by looking at how the individual dimensions of divergent thinking (ATTA components) predict entrepreneurial intentions. Table 1 seems to support this hypothesis, showing positive correlations for all four dimensions of the ATTA. However, only the correlation for elaboration (.158,  $p < .05$ ) was significant at the .05 level. Fluency (.132) and originality (.147) had slightly lower correlations than elaboration and were significant at the  $p < .10$  level.

Since one of the goals of hypothesis 2 is to investigate how creativity predicts entrepreneurial intentions over and above cognitive ability and personality, hierarchical regression was performed and results reported in Table 2. These results clearly show that the introductions of the ATTA dimensions do increase the explained

variance, over that of cognitive ability and personality, by significantly increasing the  $R^2$  from .255 in the control model to .332 in Model 2. However, only one of the ATTA dimensions, elaboration (-.136,  $p < .05$ ), in Model 2 is significant and runs contrary to the proposed direction. Thus, with reference to hypothesis 2, we can say that at a zero-order correlational level that divergent thinking is a positive predictor of entrepreneurial intentions for the dimension of elaboration, thus providing partial support for hypothesis two. However, our hierarchical regression results show that Hypothesis 2 is partially supported, in that one dimension (elaboration) significantly predicts entrepreneurial intentions, but the variable runs contrary to the predicted direction. One explanation for this result is the multicollinearity associated with the variables which has been shown in previous studies to cause regression coefficients to be altered both in magnitude and sign.

Table 2. Models Predicting Entrepreneurship

| Variable          | Model 1<br>Control<br>Variables | Model 2<br>Control and<br>ATTA | Model 3<br>Control,<br>CPS, and<br>ATTA | Model 4<br>Control and CPS |
|-------------------|---------------------------------|--------------------------------|---|----------------------------|
| Conscientiousness | -.200                           | .003                           | .098                                    | -.165                      |
| Agreeableness     | -.689***                        | -1.00***                       | -1.00***                                | -.742***                   |
| Neuroticism       | -.371**                         | -.556***                       | -                                       | -.344**                    |
| Openness          | .663***                         | .785***                        | .550***                                 | .415*                      |
| Extraversion      | .388**                          | .663***                        | .429+                                   | .375**                     |
| Cognitive Ability | .083*                           | .066                           | .668***                                 | .051                       |
| CPS               |                                 |                                | .018                                    | .104+                      |
| Fluency           |                                 | .189+                          | .139*                                   |                            |
| Originality       |                                 | .177+                          | .263*                                   |                            |
| Elaboration       |                                 | -.136*                         | .154                                    |                            |
| Flexibility       |                                 | -.102                          | -.130*                                  |                            |
|                   |                                 |                                | -.150                                   |                            |
| Model <i>df</i>   | 6                               | 10                             | 11                                      | 7                          |
| Model $R^2$       | .255***                         | .332**                         | .363***                                 | .273+                      |
| $R^2$ Change      |                                 | .077**                         | .108***                                 | .018+                      |

\*Value in cells are unstandardized coefficients

+ $p < .10$

\*  $p < .05$

\*\*  $p < .01$

\*\*\* $p < .001$

Both Tables 1 and 2 provide support of Hypothesis 3 which predicted that creative personality is positively related to entrepreneurial intentions and increments what is explained by divergent thinking. Table 1 shows a significant moderate correlation (.348,  $p < .001$ ) between CPS and entrepreneurial intentions. The hierarchical regression results of Model 3 in Table 2 show that CPS is a significant positive predictor (.139,  $p < .05$ ) of entrepreneurial intentions. Further, the introduction of the CPS variable significantly increased  $R^2$  from .332 in Model 2 (control and ATTA dimensions) to .363 in Model 3, thus supporting the incremental aspect of Hypothesis 3.

Our findings that CPS was a positive predictor of entrepreneurial intentions lead us to run one additional post-hoc model to see how CPS predicted entrepreneurial intentions above cognitive ability and personality without the ATTA dimensions in the model. As the results of Model 4 in Table 2 show, this variable was of low magnitude and failed to reach significance and did not result in a significant increase in  $R^2$  above that of the control model. Thus, the introduction of CPS did not significantly predict variance above that explained by cognitive ability and personality alone.

### **Discussion**

Our findings show that creativity can be used to predict one's intention to enter into entrepreneurship. Further, this construct is shown to predict entrepreneurial intentions over and above two of the most established predictors, cognitive ability and personality, of behavior in industrial and organization psychology and organizational behavior.

Further, our findings reveal that at a zero-order correlational level there is a positive relationship between the divergent thinking aspect of elaboration with creativity and entrepreneurial intentions; and that this relationship is reversed after controlling for cognitive ability and personality. It is interesting that elaboration has a significant and moderate to high correlation with all Big Five personality variables and creative personality. Elaboration, in this context, is the ability to add details to previously conceptualized ideas. This component of divergent thinking must, in part, be related to personality. The other part, we assume, is the creative component which produced a negative relationship after controlling for all Big Five personality variables. Thus, the creative piece of incrementing previously identified ideas or products, decreases one's intentions to enter into entrepreneurship. We interpret this to signal that individual who like to expound upon ideas, rather than generate new ideas on their own, may be less attracted to entrepreneurship because of the dynamic environment encountered by most entrepreneurs which requires rapid generation of ideas and does not allow time for extensive elaboration.

### **Implications**

Our findings have implications for both practitioners and academics. In both areas, entrepreneurship and creativity are hot topics. For instance, those in the business world often speak of how important creativity is to success in business (IBM Global Business Services Survey, 2010) and Gallup recently released an article on how Singapore's growing economy is in desperate need of entrepreneurs (Tung & Wong, 2012). Institutions of higher learning highlight their creativity and innovation programs in an effort to appeal to businesses and prospective students alike (i.e. Virginia Commonwealth University da Vinci Center for Innovation). Thus this study encompasses all these components simultaneously.

We provide and test a method of identifying creative individual and individuals with the desire to become entrepreneurs in one survey. Academics can use this survey method to develop and test new models of entrepreneurship. This can also be used by universities to identify potential students for their innovation centers and businesses and nations to identify potential entrepreneurs to nurture and incubate into thriving businesses.

Further, our results show that the best model for predicting entrepreneurial intentions included both the creative personality (CPS) and creative ability (ATTA). Together these measures predicted better than models with either construct alone, this has implication for practitioners and teachers alike. Because of the ease in administering the CPS, relative to the more extensive and time consuming ATTA; one is tempted to simply use the CPS when assessing creativity. Thus, we recommend that if one is interested in assessing a group of individual's creativity and entrepreneurial intentions, both measures of creativity should be used in concert. Up to this point, no study the researchers are aware of, has evaluated and recommended best practices for assessing creativity as a predictor of entrepreneurship.

## Conclusion

This study provides quantitative support to the idea that creativity and entrepreneurship are intertwined. Our findings that creative individuals are predisposed towards entrepreneurship should empower both practitioners and educators alike in their efforts to identify and foster the next generation of entrepreneurs.

## References

- Acar, S., & Runeo, M.A. (2011). Creative abilities: Divergent thinking. In M.D. Mumford (Ed.), *Handbook of organizational creativity* (pp. 39-65), Oxford, UK: Elsevier.
- Baer, M., Oldham, G., Jacobsohn, G.C., & Hollingshead, A.B. (2008). The personality composition of teams and creativity: The moderating role of team confidence. *The Journal of Creative Behavior*, 42, 255-282.
- Baron, R.A., & Tang, J. (2011). The role of entrepreneurs in firm-level innovation: Joint effects of positive affect, creativity, and environmental dynamism. *Journal of Business Venturing*, 26, 49-60.
- Bierly, P.E., Kolodinsky, R.W., & Charette, B.J. (2009). Understanding the complex relationship between creativity and ethical ideologies. *Journal of Business Ethics*, 86, 101-112.
- Brockhaus, R.H. (1980). Risk taking propensity of entrepreneurs. *Academy of Management Journal*, 23, 509-520.
- Chatman, J.A. (1989). Improving interactional organizational research. A model of person-organizational fit. *Academy of Management Review*, 14, 333-349.
- Costa, P.T., & McCrae, R.R. (1992). *NEO-PI-R: Professional manual*. Odessa, FL: Psychological Assessment Resources.
- Crammond, B., Matthews-Morgan, J., Bandalos, D., & Suo, L. (2005). A report on the 40-year follow-up of the Torrance Test of Creative Thinking: Alive and well in the new millennium. *Gifted Child Quarterly*, 49, 283-302.
- Crant, J.M. (1996). The proactive personality scale as a predictor of entrepreneurial intentions. *Journal of Small Business Management*, 34, 42-50.
- Daily, C.M., McDougal, P.P., Covin, J.G., & Dalton, D.R. (2002). Governance and strategic leadership in entrepreneurial firms. *Journal of Management*, 28, 387-412.
- Davidsson, P. (2005). *Researching entrepreneurship*. Boston, MA: Springer.
- Davidsson, P., & Wiklund, J. (2001). Levels of analysis in entrepreneurship research: Current research practice and suggestions for the future. *Entrepreneurship Theory and Practice*, 25, 81-100.
- Day, J., Reynolds, P., & Lancaster, G. (2006). Entrepreneurship and the small to medium-sized enterprise. *Management Decisions*, 44, 581-597.
- Donnellan, M.B., Oswald, F.L., Barid, B.M., & Lucas, R.E. (2006). The Mini-IPIP scales: Tiny-yet-effective measures of the big five factors of personality. *Psychological Assessment*, 18, 192-203.
- Farr, J.L. (1990). Facilitating individual role innovation. In M.A. West and J.L. Farr (Eds.), *Innovation and creativity at work: Psychological and organizational strategies* (pp. 207-230), Chichester, England: Wiley.
- Feist, G.J. (1998). A meta-analysis of personality in scientific and artistic creativity. *Personality and Social Psychology Review*, 2, 290-309.
- Florida, R. (2004). America's looming creativity crisis. *Harvard Business Review*, 82, 122-136.
- Gartner, W.B. (1988). "Who is an entrepreneur?" is the wrong question. *American Journal of Small Business*, 12, 11-32.
- Gough, H.G. (1979). A creative personality scale for the adjective check list. *Journal of Personality and Social Psychology*, 37, 1398-1405.
- Griest, D. L. (2011) *Entrepreneurs and personality*. Retrieved August 12, 2012, from <http://www.managementpsychology.com/articles/entrepreneurs-and-personality/>.

- Goldberg, L.R. (1990). An alternative 'description of personality': The big-five factor structure. *Journal of Personality and Social Psychology*, 59, 1216-1229.
- Guilford, J.P. (1950). Creativity. *American Psychologist*, 5, 444-454.
- Hocevar, D., & Bachelor, P. (1989). A taxonomy and critique of measurements used in the study of creativity. In J.A. Glover, R.R. Ronning, and C.R. Reynolds (Eds.), *Handbook of creativity* (pp. 53-76), New York: Plenum Press.
- IBM Global Business Services (2010). *IBM 2010 global CEO study: Creativity selected as most crucial factor for future success*. Retrieved August 8, 2012 from <http://www-03.ibm.com/press/us/en/pressrelease/31670.wss>.
- Luthje, C., & Franke, N. (2003). The 'making' of an entrepreneur: Testing a model of entrepreneurial intent among engineering students at MIT. *R and D Management*, 33, 135-148.
- Markman, G.D., & Baron, R.A. (2003). Person-entrepreneur fit: Why some people are more successful as entrepreneurs than others. *Human Resources Management Review*, 13, 281-301.
- McCrae, R.R. (1987). Creativity, divergent thinking, and openness to experience. *Journal of Personality and Social Psychology*, 52, 1258-1265.
- Mumford, M.D., Hester, K.S., & Robledo, I.C. (2011). Creativity in organizations: Importance and approaches. In M.D. Mumford (Ed.), *Handbook of organizational creativity* (pp. 3-16), Oxford, UK: Elsevier.
- Oldham, G.R., & Cummings, A. (1996). Employee creativity: Personal and contextual factors at work. *Academy of Management Journal*, 39, 607-634.
- Pryntz-Nadworny, R. (2011). *Structuring education to encourage creativity and innovation*. Paper presented at The catalyst for enterprise development at the confluence.
- Reiter-Palmon, R., Herman, A.E., & Yammarino, F.J. (2008). Creativity and cognitive processes: Multi-level linkages between individual and team cognition. In F. Dansereau and F.J. Yammarino (Ser. Eds.) and M.D. Mumford, S.T. Hunter, & K.E. Bedell-Avers (Vol. Eds.), *Research in multi-level issues: Vol. 7. Multi-level issues in creativity and innovation* (pp. 203-267). Bingley, UK: Emerald Publishing Limited.
- Robert, C., & Cheung, Y.H. (2010). An examination of the relationship between conscientiousness and group performance on a creative task. *Journal of Research in Personality*, 44, 222-231.
- Schmidt, F.L. (2002). The role of general cognitive ability and job performance: Why there can be no debate. *Human Performance*, 15, 187-210.
- Stewart, W.H., & Roth, P.L. (2007). A meta-analysis of achievement motivation differences between entrepreneurs and managers. *Journal of Small Business Management*, 45, 401-421.
- Torrance, E.P. (1966). *Torrance test of creative thinking: Norms technical manual*, Research edition. Princeton, NJ: Personnel Press.
- Tung, L.C., & Wong, J. (2012). *Capitalist Singapore needs more entrepreneurs fast*. Retrieved August 8, 2012 from <http://businessjournal.gallup.com/content/155612/capitalist-singapore-needs-entrepreneurs-fast.aspx>.
- Ward, T.B. (2004). Cognition, creativity, and entrepreneurship. *Journal of Business Venturing*, 19, 173-189.
- Wilson, N.C., & Stokes, D. (2006). Managing creativity and innovation: The challenge for cultural entrepreneurs. *Journal of Small Business and Enterprise Development*, 12, 366-378.
- Khao, H., & Seibert, S.E. (2006). The big five personality dimensions and entrepreneurial status: A meta-analytical review. *Journal of Applied Psychology*, 91, 259-271.

# **Business Planning Education**

D. Lynn Hoffman, Metropolitan State University of Denver  
Nina Radojevich-Kelley, Metropolitan State University of Denver

## **Abstract**

Most entrepreneurial programs have a business plan writing course as an integral part of their curriculum. Many professors teaching these courses assume that business plans are important for potential entrepreneurs. Although anecdotal writers all argue their importance, the actual empirical evidence of their usefulness is mixed. The literature review revealed gaps in knowledge including: the lack of a comprehensive model, possible variables needing research, and the importance of the process of business plan writing relative to the actual plan. This exploratory study of entrepreneur professors is a first step in understanding what is taught, prerequisites, and issues. This first step needs to be followed with other research on business plan writing courses.

## **Introduction**

Almost all entrepreneurial programs have a business planning course as part of their curriculum. This paper is an exploratory study of these courses to determine their use, content, requirements, pre requisite course preparation, types of students, whether it is required for business majors, and inclusion of non business majors.

While there are many anecdotal articles about business plans and their uses, there is little empirical research and the research that exists is mixed on whether business plans are or are not useful. Regardless of these results, most entrepreneurial programs have a business planning course as a major component of their program. In addition, there is no consensus on what the course should contain or its prerequisites. The study attempts to fill this gap in knowledge by surveying academicians who teach or are responsible for this course.

## **Literature Review**

### *Initial Literature Review*

As mentioned above there is considerable disagreement over the usefulness of business plans. Numerous papers argue that business plans are a necessary and important variable for new venture success. Such writers who support this believe include: Bethoski and Ometer (2009), Bracher (1987), Branch, (1991), Brown (1996), Ramachandran (2004), McGrath and MacMillan (2000), Matthews and Scott (1995), Whiting (2007). Other writers arguing their futility include: Bhide (2000), Boyd (1991), Castroviovanni (1996), Carter, Garner and Reynolds (1996), and Robinson and Pearce (1983).

In addition, empirical research is also mixed. Delmar and Shane (2003) found that business planning forces goal setting, teaches decision making, teaches management of bottlenecks, and moves goals from abstract to actuality. However, they found that planning may be more effective in start ups as opposed to existing businesses. They also found that business planning reduced what they termed the hazard of disbanding (discontinuing the project) by 22 percent.

Business planning may improve what Dimov (2010) terms entrepreneur confidence which is the entrepreneur's belief that the concept is viable. He found that planning has an indirect impact via the collection of experience or information that increases or decreases the entrepreneur's confidence of possible success. Conversely, he also found that previous entrepreneurial experience and early business planning do not affect actual business launches while previous industry experience does. He concludes that planning is a tool (the authors will use the term process as defined below) that guides the entrepreneur away from non-viable to viable opportunities. He raises the question of whether it is required for eventual successful or indirectly helpful.

### *Possible Explanations For The Mixed Results*

The possible explanations for these mixed results are that there is no comprehensive model of business planning that accurately depicts the various variables and how they interact. Confounding variables and concepts may include: the difference between process and product (the business plan), the role of the external environment including environmental uncertainty, who uses the end product and for what purposes, internal uses of the product, the previous entrepreneurial experience of the nascent entrepreneur, and the previous industry experience of the entrepreneur.

First Bracher (1987) followed by Delmar and Shane (2003) raise the question - which is more important: the process or the product (the business plan)? The latter found that the “process of business planning” was responsible for the positive effects noted above -namely the teaching of decision making, learning how to manage bottlenecks, and turning abstract goals into actuality. The process of planning increases or decreases confidence in the opportunity’s viability. The anecdotal paper, *7 Secrets of Successful Business Planning* (2007) argues that the process forces the nascent entrepreneur to view the entire situation, refine their goals, and how to operationalize them.

The role of the environment in business planning as an external factor represents a gap in the existent literature (Mason and Stark, 2004). These authors found that different external entities stress different aspects of a business plan. Bankers place greater emphasis on the financial statements while venture capitalists consider marketing and financial issues and the entrepreneurial team. Angels place the greatest emphasis on finance, then the following: the entrepreneur, the investor fit, growth potential and potential returns. Surprisingly they also found that entrepreneurial firms did more “sophisticated strategic and operational planning” than small businesses and business planning actually decreased with increasing environmental uncertainty (Mason and Stark, 2004).

Similarly, Honig and Karlson (2004) found substantial environmental impact on business planning. Government or public support agencies use “coercive institutional pressure” to force nascent entrepreneurs to plan. Nascent organizations in established industries “model” existing business in their business planning. Those founders with business education (who usually haven taken a business planning course) have a greater probability of writing a business plan than founders without a business education.

Similarly the purposes of business planning may include internal uses which may include: forcing the nascent entrepreneur to formalize their goals, determining strengths and weaknesses, conveying expectations to subordinates, creating a framework for further decision making, and perhaps motivating others (Betkoski and Ometer, 2000). Bracher (1987) concurs with the comment that business planning is collaborative- the planners are focusing on their intended audiences.

Similarly, the outcomes of planning may be different depending on the plans intended internal or external use. Delmar and Shane (2003) discuss three possible outcomes: new product development, disbanding, and venture organizing activities. As mentioned above, business planning reduces the hazard of disbanding by 22%, facilitates product development via new ventures, and facilitates venture organizing activities (those activities that actually start the venture). Rowe’s (2006) outcomes include an action control system (to measure environmental uncertainty with measures to deal with it), a strategy control system to create the vision, goals, and competitive advantages, a strategy formulation control system to set options and assumptions and a strategy implementation control system.

The entrepreneur is another variable that should be added to a future model. The entrepreneur’s past entrepreneurial experience, past industry experience, and level of confidence in the opportunity are important considerations (Dimov, 2010).

Perhaps Honig and Karlson's (2004) conclusion is the most succinct - business planning does not directly affect survival but influences it indirectly. Thus it may not be a "sufficient variable" (absolutely necessary for success) but it may increase success indirectly via the external, internal, or environmental paths discussed above.

Given these gaps in the literature, this study is the first step in understanding what educational institutions are doing with their entrepreneurial curriculum-specifically the business plan writing course. Where do they place the course in the curriculum, what pre-requisites do they set, are non business majors included, and what success rates have they discovered? With the first step being an understanding of the phenomena of business courses, the authors hope that other research on effectiveness of planning under the different conditions mentioned above will be conducted (see Future Research below).

## **Methodology**

### *Research Design*

The research design utilized for the purpose of this study was survey research. The data was collected using a newly developed instrument. The survey instrument included a pre-test on business plan instructors to examine the usefulness of the survey. A total of five business plan instructors took the pre-test survey. Adjustment to several questions on the survey were made following the pre-test. The survey instrument had an appropriate cover letter attached with corresponding instructions to help ensure that respondents understood the purpose of the study. The purpose of the study was to determine their use of business plan courses in higher education, their content, requirements, pre requisite course preparation, types of students, whether it is required for business majors, and the inclusion of non business majors. Relevant and pertinent descriptive information was included in the study.

### *Sample*

The sample included professors who attended two Small Business Institute Conferences and included various professors across the USA. A total of 60 surveys were distributed and 35 responses were returned and tabulated. The sample was collected using the survey instrument and was distributed via e-mail and in person. The sample was a convenience sample based on accessibility. The response rate for the study was 58.3%. This response rate is acceptable because nearly one third of entrepreneurship research published in various journals reports response rates below 25% (Dennis, 2003; Sonfield & Lussier, 2009).

### *Measures and Analysis*

The actual survey instrument used closed and open-ended questions. This design allowed professors to expand or explain when needed, and to select from pre-existing multiple choice questions. Participants were encouraged to discuss, explain and expand on their opinions, and answers when necessary. Descriptive statistics were reported based on the results.

## **Results**

### *Descriptive Statistics*

As evident in Table 1, the majority of professors teaching business plan writing courses have been teaching for a decade or more. Specifically, nearly one quarter of the professors have been teaching for 4-6 years. For greater details, please see Table 1 below.

Table 1. How many years have you been teaching business plan writing courses?

|               | Response Percent  | Response Count |
|---------------|-------------------|----------------|
| 1-3 Years     | 11.8%             | 4              |
| 4-6 Years     | 20.6%             | 7              |
| 7-9 Years     | 8.8%              | 3              |
| 10 plus years | 58.8%             | 20             |
|               | answered question | 34             |
|               | skipped question  | 1              |

Table 2 shows that the vast majority of business plan instructors teach 1-3 business plan courses per year. Very few instructors surveyed teach 7-10 business plan courses yearly. For greater details, please see Table 2 below.

Table 2. How many business plan course do you teach each year?

|                            | Response Percent  | Response Count |
|----------------------------|-------------------|----------------|
| 1-3 business plan courses  | 74.3%             | 26             |
| 4-6 business plan courses  | 17.1%             | 6              |
| 7-10 business plan courses | 8.6%              | 3              |
|                            | answered question | 35             |
|                            | skipped question  | 0              |

Table 3 shows a variety of pre-requisite requirements for business plan courses in general. The majority of professors require beginning marketing, beginning management, beginning finance and accounting one as requirements for the course. English (writing) is also highly required. Very few instructors teach business plan writing with no required pre-requisites. Interestingly computer information systems, accounting two, and speech are the least required pre-requisites. Speech has the lowest response rate from faculty. For more details, please see Table 3 below.

Table 3. Please select from the list of pre-requisites that are required for your business plan course. Check all that apply

|                              | Response Percent  | Response Count |
|------------------------------|-------------------|----------------|
| Beginning Marketing          | 74.3%             | 26             |
| Beginning Finance            | 62.9%             | 22             |
| Beginning Management         | 74.3%             | 26             |
| Computer Information Systems | 40.0%             | 14             |
| Accounting 1                 | 68.6%             | 24             |
| Accounting 2                 | 42.9%             | 15             |
| Micro Economics              | 51.4%             | 18             |
| Macro Economics              | 48.6%             | 17             |
| English (Writing)            | 60.0%             | 21             |
| Beginning Math               | 51.4%             | 18             |
| Speech                       | 28.6%             | 10             |
| None                         | 17.1%             | 6              |
|                              | answered question | 35             |
|                              | skipped question  | 0              |

According to Table 4, most faculty strongly agree or agree that their students have an excellent grasp of basic management concepts. For greater details, please see Table 4 below.

Table 4. Most of my students have a strong grasp of basic business management concepts.

|                            | strongly agree | agree         | neither agree nor disagree | disagree     | strongly disagree | rating average    | response count |
|----------------------------|----------------|---------------|----------------------------|--------------|-------------------|-------------------|----------------|
| This describes my students | 11.8%<br>(4)   | 55.9%<br>(19) | 17.6%<br>(6)               | 14.7%<br>(5) | 0.0%<br>(0)       | 3.65              | 34             |
|                            |                |               |                            |              |                   | answered question | 34             |
|                            |                |               |                            |              |                   | skipped question  | 1              |

As evident in Table 5, more than three-quarter of business plan professors spend a large amount of time re-teaching beginning marketing and beginning finance, In addition, nearly fifty percent of professors spend time re-teaching accounting one each semester. Nearly one third of the faculty spend time re-teaching basic management principles to students who take business plan courses. For greater details, please see Table 5 below.

Table 5. In order to teach students how to write a high quality business plan, I must spend on average more than 2 hours re-emphasizing and re-teaching the following topics. Please select all that apply.

|                              | Response Percent  | Response Count |
|------------------------------|-------------------|----------------|
| Beginning Marketing          | 77.1%             | 27             |
| Beginning Finance            | 68.6%             | 24             |
| Beginning Management         | 31.4%             | 11             |
| Computer Information Systems | 2.9%              | 1              |
| Accounting 1                 | 45.7%             | 16             |
| Accounting 2                 | 17.1%             | 6              |
| Micro Economics              | 2.9%              | 1              |
| Macro Economics              | 2.9%              | 1              |
| English (Writing)            | 25.7%             | 9              |
| Beginning Math               | 5.7%              | 2              |
| Speech                       | 11.4%             | 4              |
| None                         | 8.6%              | 3              |
|                              | answered question | 35             |
|                              | skipped question  | 0              |

Based on Table 6 results, the majority of professors believe that teaching business plan courses is challenging due to students having poor research skills and poor critical thinking skills. Most faculty reported that most students lack knowledge of basic business topics, have poor team building skills, have low commitment to the course, have substantial trouble working in groups and possess substandard writing skills. For more details, please see Table 6 below.

Table 6. What obstacles and challenges do you face when teaching business plan courses? Explain.

|                                  | Response Percent  | Response Count |
|----------------------------------|-------------------|----------------|
| Team Issues/Cohesion             | 15.2%             | 5              |
| Lack of accounting knowledge     | 18.2%             | 6              |
| Poor research/critical thinking  | 24.2%             | 8              |
| Writing/grammar/ language        | 15.2%             | 5              |
| Difficulty with live cases       | 6.1%              | 2              |
| Low Student expectations         | 3%                | 1              |
| Lack of creativity & imagination | 6.1%              | 2              |
| Lack of student commitment       | 9.1%              | 3              |
|                                  | answered question | 33             |
|                                  | skipped question  | 2              |

According to Table 7, fifty-four percent of the respondents relied that one to ten percent of their students actually start their proposed businesses. Thirty-one (31.4%) of the respondents replied from eleven to twenty percent actual go out and started their venture. Only eight percent of the respondents (8.6%) had more than twenty percent of their students start their business. For more details, please see Table 7 below.

Table 7. What percentage of your business plan students actually launch their business?

|                 | Response Percent  | Response Count |
|-----------------|-------------------|----------------|
| 0               | 5.7%              | 2              |
| 1-10%           | 54.3%             | 19             |
| 11-20%          | 31.4%             | 11             |
| 21-30%          | 5.7%              | 2              |
| 31-40%          | 0.0%              | 0              |
| 41-50%          | 2.9%              | 1              |
| 51-75%          | 0.0%              | 0              |
| higher than 75% | 0.0%              | 0              |
|                 | answered question | 35             |
|                 | skipped question  | 0              |

As evident in table 8, sixty percent of the educators require an elevator presentation in their business plan class. Only 40% do not require this presentation. For more details, please see Table 8 below.

Table 8. Do you require an elevator pitch presentation?

|     | Response Percent  | Response Count |
|-----|-------------------|----------------|
| yes | 60.0%             | 21             |
| no  | 40.0%             | 14             |
|     | answered question | 35             |
|     | skipped question  | 0              |

Table 9 shows that a very large majority (82.9%) require some formal presentation of the business plan. For more details, please see Table 9 below.

Table 9. Do you require your business plan students to formally present their plan?

|     | Response Percent  | Response Count |
|-----|-------------------|----------------|
| yes | 82.9%             | 29             |
| no  | 17.1%             | 6              |
|     | answered question | 35             |
|     | skipped question  | 0              |

According to Table 10, most faculty have unique pedagogical techniques that they employ throughout the business plan class (69%), while 31% do not. Many professors use podcasts, guest speakers, case studies, presentations, pitches and section off business plan pieces to manage their courses. For greater details, please see Table 10 below.

Table 10. Please share any unique pedagogical techniques that you utilize in your business plan course. Explain/describe.

|   | Response Percent | Response Count |
|---|------------------|----------------|
| Student observation/interview of customer | 5.7%             | 2              |
| Case studies                              | 5.7%             | 2              |
| Guest Speakers                            | 5.7%             | 2              |
| Student Pitches                           | 2.9%             | 1              |
| Multiple Business Plans                   | 8.6%             | 3              |
| Presentations and Go/No go Decision       | 2.9%             | 1              |
| Presentations by Start-up Companies       | 2.9%             | 1              |
| None                                      | 31.4%            | 11             |

|  |                   |     |
|--|-------------------|-----|
| Have students write learning objectives for team   | 2.9%              | 1   |
| Team shared ideas with class                       | 5.7%              | 2   |
| Take Business Plan section, by section             | 5.7%              | 2   |
| Create actual business on campus                   | 2.9%              | 1   |
| Use examples, Podcasts                             | 5.7%              | 2   |
| Other  | 11.4%             | 4   |
| Faculty who utilize unique pedagogical techniques: |                   | 69% |
| Faculty who do not use pedagogical techniques:     |                   | 31% |
|  | Show Responses    | 35  |
|  | answered question | 35  |
|  | skipped question  | 0   |

### Discussion of Results

A large percentage of professors teaching the business planning course have ten or more years experience teaching it. The majority of professors teach one to three business plan courses per year. Most use a combination of lectures, workshops, and or presentations. Most require beginning marketing, finance, management, and introduction to accounting. A sizable majority believes that their students have a strong grasp of basic business management concepts; however, many professors must re-emphasize and re-teach some of basic concepts. The biggest obstacles teaching a business plan course are poor research or poor critical thinking skills of the students. The study found that sixty percent of the respondents require elevator pitch presentations and eighty three percent require students to formally present their business plan during the class. Nearly three quarter (69%) of faculty that teach business plan courses utilize unique pedagogical techniques, such as podcasts, guest speakers, case studies, presentations, pitches or section off business plan pieces to manage their courses.

The study results indicate that 54.3% of respondents stated that between one and ten percent of their students actually start their business while 85.7% believe up to twenty percent of graduating students start their business. This supports the literature review that found that business plan courses help students start business.

### Implications

This study has practical and theoretical implications for business plan educators, government entities teaching business plans, and business plan consultants. Business plan educators can use the survey results to compare their prerequisites, student preparation, student understanding of basics, and obstacles to student success. Because some writers question the usefulness of business plans, those of us who are involved need to ask some hard questions. If between 1 and 20% of the students taking business plan writing courses actually start the venture they propose in the class, is that result satisfactory? Or does this question miss the point- we teach a process that they can use for that venture proposed in the class, a refined venture in the future, or a totally different venture. Such a learned process can be used by an entrepreneur or a corporate manager who is asked to manage the process his/her team will follow to research a new opportunity.

### Conclusion

This study was a first step in understanding business plan writing courses. The survey revealed that the professors involved in this class have considerable pedagogical experience. Many use a number of different pedagogical techniques. Many require presentations such as elevator pitches.

More research is needed on what pedagogical techniques are most effective for business and non-business majors. More thought is needed on how to integrate curriculum so that many of us do not have to re-teach or re-emphasize the basic business concepts. What are some of the best practices that others can use?

As Honig and Karlson (2004) found many entrepreneurs with business education write business plans. The survey determined that 1-20% of business plan writing course graduates start their own business. What is not known is whether the value to them was in the actual business plan resulting from those classes or whether the education taught them a process that they used for a more refined business plan or a totally different venture. If this is the case then the value of such courses may lay in the learned process not the plan from the class. More research is needed on the questions raised by this survey.

### **Limitations**

The limitations of the study are similar to other surveys. The sample included only one group of educators and therefore may not be representative of all business plan educations. In addition, the sample size was small.

### **References**

- Bethoski, D. & Ometer, L. (2000). *Journal of the American Dietetic Association* 100 (3) 293-294.
- Bhide, a. 2000. *The Origin and Evolution of New Businesses*. Oxford University Press: New York.
- Boyd, B.K. 1991. Strategic planning and financial performance: A meta-analytic review. *Journal of Management Studies* 28 353-374.
- Bracher, P. (1987- Winter). Process, pedagogy, and business writing. *The Journal of Business Communication* 24 (1) 43-50.
- Branch, S.S. (1991). A good plan is key to business success. *Black Enterprise* 22(4) 68.
- Brown, C.M. (1996). The do's and don'ts of writing a winning business plan. *Black Enterprise* 26 (9) 114.
- Carter, N. Gartner, W, Reynolds, P. (1996). Exploring start-up event sequences. *Journal of Business Venturing* 11 151-166.
- Castroviovanni, G. (1996). Pre-startup planning and the survival of new small businesses: Theoretical linkages. *Journal of Management* 22 801-822.
- Delmar, F. & Shane, S. (2003). Does business planning facilitate the development of new ventures? *Strategic Management Journal* 24 (12) 1165-1185.
- Dennis, W., (2003). Raising response rates in mail surveys of small business owners: Results of an experiment. *Journal of Small Business Management*, 41 278-295.
- Dimov, D. (2010). Nascent entrepreneurs and venture emergence: Opportunity, confidence, human capital, and early planning. *Journal of Management Studies* 47 (6). Doi: 10.1111/j.1467-6486.2009.00874.x (this paper has a great literature review on nascent entrepreneurs).
- Honig, B. & Karlsson, T. (2004). Institutional forces and the written business plan. *Journal of Management* 30 29-48.
- Mason, C. & Stark, M. (2004). What do investors look for in a business plan? : A comparison of the investment criteria of bankers, venture capitalists, and business angels. *International Small Business Journal* 22 (3) 227-248.
- Matthews, C. & Scott, S.G. (1995). Uncertainty and planning in small and entrepreneurial firms: An empirical assessment. *Journal of Small Business Management* 33 34-52.
- McGrath, R, & MacMillan, I. (2000). *Discovery Driven Planning*. Harvard Business School Press: Boston, MA.
- Ramachan, N. (2004). Be your own boss. *U.S. News and World Report* 17 (3) 62-66.
- Robinson, R. & Pearce, J. (1983). The impact of formalized strategic planning on financial performance in small organizations. *Strategic Management Journal* 4 197-207.
- Rowe, J. (2006 August/September). Turning darkness into light: Strategic thinking for entrepreneurial managers. *IET Engineering Management* 42-45.
- Sonfield, M. C. & R.N. Lussier, (2009). Non-family members in the family business management team: A multinational investigation. *Int. Entrepreneurship Manage. J.*, 5: 395-415.

- 7 Secrets of successful business planning. (2007). *Canadian Business* 80 (3) 15-17. Retrieved from: <http://0-direct=true&db=aph&AN=23955293&site=ehost-live>.
- Whiting, M. (2007). How to write a business plan. *Pulse* 25 44. Retrieved from: <http://0-go.galegroup.com.skyline.ucdenver.edu/ps/i.do?id-GALE%>

# **Buy Local – Restaurant Owners’ Perception, Importance for Practitioners, and Policy Implications**

Kathleen Liang, University of Vermont  
Paul Dunn, University of Louisiana

## **Abstract**

A survey with 52 local restaurant owners in Northeast Louisiana revealed their perceptions of local food, purchasing pattern of local food, and if using the local food impacts their sales and customers’ preferences. Most of the restaurant owners believed that purchasing the local food would not improve their sales. Given the purchasing incentive policy in Louisiana, the results of this survey serve as the pre-policy assessment to understand restaurant owners’ awareness of the local food issues, and how they assess the impacts of local food purchase on their costs, sales, and customers.

## **Introduction**

There has been a growing interest the potential of local food system in the United States. The USDA introduced a new initiative in 2009, Know Your Farmers Know Your Food, to promote sustainable local and regional food systems. This initiative aims to support small and mid-sized farms and ranches, to strengthen the connections between farmers and consumers in rural communities, to promote healthy eating, and to protect our natural resources (USDA, 2009). In 2012, the USDA allocated and released \$9 million in grants through the Farmers’ Market Promotion Program to organizations across 39 states, the District of Columbia and Puerto Rico to support projects that will improve the connection between agricultural producers and their consumers (USDA, 2012). Many state governments have also begun to design and implement state law to encourage consumers and institutions to purchase locally grown or produced food. Since most of these initiatives are new, there has been limited information that documents or demonstrates the effectiveness of these local food initiatives.

This paper presents the results of a unique study that was conducted right before the Louisiana government passed the state law – Louisiana Buy Local Purchase Incentive Program. Without knowing the discussion and drafting of the Louisiana Buy Local Purchase Incentive Program, a survey was designed and implemented to gather information from Northeast Louisiana restaurant owners with respect to their understanding and decisions to purchase local food. This study is important and may serve as a benchmark study for the Louisiana legislature, because the sensitivity of the timing and the assessment of prior experience of the restaurant owners without the implementation of the law.

## **Literature Review of Local Food Movement**

### *The Louisiana Buy Local Purchase Incentive Program*

Louisiana Buy Local Purchase Incentives Program passed by the legislature in the spring of 2011 is designed to encourage restaurants to buy local. The law provides a 4 percent of cost to Louisiana restaurants to buy local agricultural products. The 4 percent applies to the total cost of Louisiana agriculture products purchased by a restaurant in any year. Specifically, as explained in the 2011 Louisiana Laws, Revised Statutes, TITLE 3 — Agriculture and forestry, RS 3:284 — Louisiana Buy Local Purchase Incentive Program:

*"Louisiana agricultural products" means the following products produced in Louisiana: agronomic, aquacultural, floricultural, horticultural, silvicultural, and viticultural products, including but not limited to: plants, crops, livestock, dairy products, and fruits; crawfish, catfish, other fish, shrimp, oysters, crabs, underutilized species, and any other seafood and freshwater food; and all meat and meat products including beef, veal, pork, mutton, poultry, and products made therefrom.*

*"Louisiana coastal waters" shall have the same meaning as provided for in R.S. 49:214.23(4) in the coastal zone law.*

*"Louisiana coastal zone" shall have the same meaning as provided for in R.S. 49:214.23(5). "Produced in Louisiana" means manufactured, planted, cultivated, grown, caught, or harvested in Louisiana, including in Louisiana coastal waters, the Louisiana coastal zone, and in the territorial waters of the state.*

*"Produced in Louisiana" shall also mean, in regard to seafood, caught or harvested in waters seaward of the territorial waters of the state by the holder of a Louisiana commercial fisherman's license who transports and sells his catch to a licensed Louisiana wholesale/retail seafood dealer located within the state of Louisiana.*

Louisiana is among the first states to adopt legislation that provides direct financial incentive to restaurant owners to buy local food. However there has been no studies to verify restaurant owners' perceptions and willingness to buy local prior or after the law is passed.

#### *Local Food Initiatives at the Federal Level*

There have been many programs and initiatives at the Federal government level to support local food purchases. Between 1994 and 1998, the U.S. Department of Defense (DoD) proposed and implemented a program called the Fresh Program that began buying local food for schools and hospitals. The original purpose of the Fresh Program was to take advantage of unused trucking capacity in DoD. The Fresh Program partnered with the USDA to acquire fresh produce for state institutions, with preferences given to local small and medium-sized farms at each state (USDA ERS, 2010a and 2010b). Since 1996, a series of acts were passed by the congress to promote and support local food purchase such as the Community Food Security Act, the Community Food Project Program, the Community Food Security Initiative, and local wellness programs focused on building local food into a part of healthy eating solution (Kantor, 2001; Starr et al., 2003; Hamilton, 2005; Matteson and Heuer, 2008). USDA's Food and Nutrient Service administers two programs that promote the use of farmers' markets and are available in most of the states – the WIC Farmers' Market Nutrient Program and the Senior Farmers' Market Nutrient Program (Hamilton, 2005). USDA's Agricultural Marketing Service also administers several grant programs to encourage local food purchase across states and institutions, including the establishment of the Farmers' Market Promotion Program in 2006 and the Specialty Crop Block Grant Program in 2004.

#### *Local Food Initiatives at the State Level*

State and local governments have followed the USDA's effort to establish their own initiatives to promote local food purchase. The usage of the electronic benefit transfer (EBT) cards and the food stamps at farmers' market are two examples (USDA FNS, 2010). The State of Tennessee, for example, adopted a law to support local food purchases:

*SB2969 (2004 Tenn. Pub. Acts, Chap. # 473), "this bill would require state departments and agencies that are making purchases to give preference to goods and services produced in Tennessee or bid for by a company with a presence in Tennessee ("Tennessee bidders") if the goods are at least the same quality and price as other goods offered. This bill would create a special hierarchy of preference for agricultural products, including textiles. First priority would go to products produced in Tennessee. Agricultural products offered by Tennessee bidders would receive second priority. If there were no locally produced goods or Tennessee bidders offering goods at the requisite quality and price, then priority would go to goods produced in the United States. Also, all state department and agencies would be required to give preference to native vegetation when purchasing vegetation for landscaping purposes if the price and quality are at least equal to those of other products offered."*

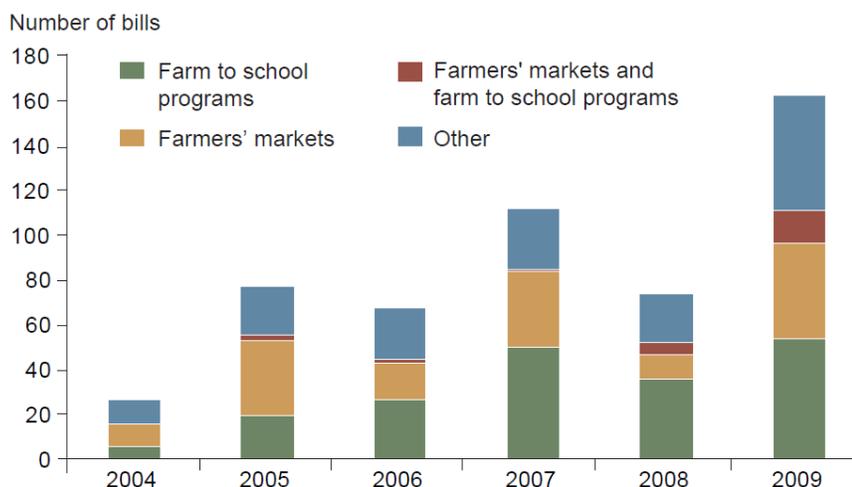
Another example is the State of Connecticut passing a Substitute House Bill No. 5508, Public Act No. 11-189 to set up the Governor's Council for Agricultural Development which is mandated to provide a means to increase local food expenditures to 5% of total food expenditures by 2020:

*"(b) The council shall make recommendations to the Department of Agriculture on ways to increase the percentage of consumer dollars spent on Connecticut-grown fresh produce and farm products, including, but not limited to, ways to increase the amount of money spent by residents of the state on locally-grown farm products, by 2020, to not less than five per cent of all money spent by such residents on food. The council shall also make recommendations concerning the development, diversification and promotion of agricultural products, programs and enterprises in this state and shall provide for an interchange of ideas from the various commodity groups and organizations represented."*

<http://www.ct.gov/doag/cwp/view.asp?a=3595&q=423842>

The funding and support of local food purchasing at the state level have grown substantially since 2004. The National Conference of State Legislatures has compiled a comprehensive, searchable database that lists all states policies and policy proposals relating to local food purchase since 2004 (Figure 1). Most of the state level bills promote farm-to-school programs and farmers' market. Not many offers direct incentive to reduce the costs to restaurants that choose to purchase local food as ingredients.

Figure 1.  
State legislative bills focusing on local foods, 2004-09



Source: National Conference of State Legislatures, Healthy Community Design and Access to Healthy Food Database 2010.

## Research Method

### Survey Design

Before a survey instrument was designed, local residents in Northeast Louisiana helped to identify all food related ingredients that would be utilized by Louisiana restaurants, based on the types of cuisine offered and available in Northeast Louisiana. The survey instrument was designed to capture restaurant owners' perceptions on buying local products/ingredients. There were three sections in the questionnaire. The first section was designed to gather information about restaurant owners' business experiences and business profile; such as when the restaurant was started, location, number of full time and part time employees, and other work experiences prior to starting/owning this restaurant. Several questions focus on restaurant owners including gender, age, education, marital situation, and family composition.

The second section of the survey related to assessment of entrepreneurial characteristics of the restaurant owners; such as optimism, pessimism, realism, being in control, being independent, being creative and innovative, and being willing to take risks. There were also questions about the restaurant owners' expectation relating to personal and family happiness and financial improvement from running the business.

The third section of the survey asked restaurant owners' about their understanding and utilization of local food. The restaurant owners needed to identify how they would consider "locally grown or locally produced food" given 4 choices:

- Within 25 miles of food traveling distance.
- Within 50 miles of food traveling distance.
- Within 100 miles of food traveling distance.
- Don't know.

The restaurant owners also needed to identify the frequency of purchasing locally grown or locally produced food, and the percentage of the total food costs for the restaurant that was locally grown or locally produced. A list of potentially available locally grown or locally produced food items was provided to restaurant owners to choose from:

- Fruit, preserved fruit, vegetable, preserved vegetable.
- Poultry, beef, pork, duck, lamb, seafood, fresh water fish, crawfish, other meat.
- Beer, wine, soda, other drinks.
- Spice, flour, sugar, syrup
- Cheese, milk, ice cream, yogurt, cream, butter, other dairy
- Condiments (sauce, mayo, pickles, etc.)
- Tofu, other soy products

Finally there were two questions asking about if using the local food would increase sales, and if customers ever asked for local food in the restaurant.

### *Survey Procedures and Sampling*

A list of 97 restaurants that were locally owned and operated was gleaned from BusinessInfoUSA, 2011. The list chosen did not include corporate chain stores or franchise. Thirty students from University of Louisiana at Monroe contacted 97 restaurants for interviews according to the business addresses. Only the owner of the restaurant was interviewed with full consent in the Spring of 2011. Totally 52 interviews were completed and used in this analysis.

## **Survey Results**

### *Restaurant Owners' Profile and Business Profile*

Of the 52 restaurant owners who completed the interviews, 32 were male and 20 were female. Thirty-six restaurant owners were White, 10 were Asian/Pacific Islander, and 4 were African American. A majority of the restaurant owners, 26 out of 52, were between 30 and 50 years old. Seventeen were over 50 years of age. Seventeen restaurant owners had college degrees, 7 had graduate college degrees, and 14 had high school diploma. Twenty-seven restaurant owners were married with children, 12 were single, and 9 were single with children. For those who were married, most of the spouses did not work in the restaurant, and 10 spouses worked in the business full time.

Twenty-nine restaurant owners started this business, while 10 acquired from others. Eighteen restaurant owners started this business less than 5 years ago, and only 10 had been in business for over 15 years. Interestingly 36 restaurant owners mentioned they had never started a business prior to starting the restaurant. Thirty-two people responded that they had line experiences prior to starting this restaurant. Less than 10 people responded that they had some operation or managerial experiences in other types of business.

Thirty-four restaurateurs participated in the interviews located in urban area. Twenty-five restaurants had fewer than 5 full time employees. Seventeen restaurants had fewer than 5 part time employees. Not surprisingly most of the respondents (49 to 51 out of 52 respondents) agreed that they would like to be independent, they wanted to be in control, they were creative and innovative, and they were willing to accept risks in new venture formation.

#### *Restaurant Owners' Assessment of Expectations*

Literature often discusses how optimism affects individual's behavior and decision. Restaurant owners who participated in the interview were definitely optimistic about their business with 39 agreeing that they always expected the best and they were always optimistic,

Our respondents were also realistic in some ways. For example, 44 respondents agreed that they set achievable goals, 34 respondents agreed that they weigh the risks and rewards when making decisions, 36 agreed that they look before they leap, and 38 agreed that they always tried to look for information before making decisions.

Many scholars have discussed the relationship between new venture creation and family outcomes. Forty-six restaurant owners agreed that they expected to be happier after starting the restaurant business. Forty-two respondents agreed that they expected their family to be happier after starting the business. Forty-eight respondents expected to be financially better off, and 42 respondents expected the restaurant business would improve their family financial situation.

#### *Do Restaurant Owners' Know What is Local?*

Respondents in general thought that local meant less than 100 miles (Table 1). Nineteen percent, 10 respondents, admitted they did not know what local meant. While the Louisiana defines local as produced within the state, the USDA defines it as within 400 miles.

Table 1. What do you think Locally Grown Means

|                     | <i>Frequency</i> | <i>Percent</i> |
|---------------------|------------------|----------------|
| NR                  | 1                | 1.9            |
| Within 25 miles     | 14               | 26.9           |
| Within 50 miles     | 13               | 25.0           |
| Within 100 miles    | 14               | 26.9           |
| I don't really know | 10               | 19.2           |
| Total               | 52               | 100.0          |

#### *Restaurant Owners' Purchasing Decisions*

Over half the respondents indicated that they purchased local frequently, 19 percent (10 respondents) occasionally, and 17 percent (9 respondents) seldom and 9 percent (5 respondents) never. Clearly most of the respondents did not purchase local very frequently (Table 2).

Table 2. Frequency of Local Food Purchases

|              | Frequency | Percent |
|--------------|-----------|---------|
| NR           | 1         | 1.9     |
| Frequently   | 27        | 51.9    |
| Occasionally | 10        | 19.2    |
| Seldom       | 9         | 17.3    |
| Never        | 5         | 9.6     |
| Total        | 52        | 100.0   |

Table 3 indicates that almost half of the respondents thought that local food represented 20 percent or more of their food costs. Over 20 percent thought that local food represented none of their food costs. The remainder thought that local food represented less than 20 percent of their food costs. The study was done before the Louisiana legislature passed the incentives bill that provides a 4 percent incentive for purchasing local. Perhaps that will have changed by now.

Table 3. Percentage of Food Cost that is Local Food

|       | Frequency | Percent |
|-------|-----------|---------|
| 0     | 11        | 21.2    |
| 1     | 1         | 1.9     |
| 4     | 1         | 1.9     |
| 5     | 5         | 9.6     |
| 10    | 8         | 15.4    |
| 15    | 2         | 3.8     |
| 18    | 1         | 1.9     |
| 20    | 3         | 5.8     |
| 25    | 5         | 9.6     |
| 30    | 2         | 3.8     |
| 32    | 1         | 1.9     |
| 33    | 1         | 1.9     |
| 35    | 2         | 3.8     |
| 40    | 1         | 1.9     |
| 45    | 1         | 1.9     |
| 70    | 3         | 5.8     |
| 75    | 3         | 5.8     |
| 90    | 1         | 1.9     |
| Total | 52        | 100.0   |

Respondents indicated they purchased local vegetables, 80.8 percent; fruit, 50 percent; seafood, 42.3 percent; poultry, 34.6 percent; other drinks and ice cream, 26.9 percent; other soy, 25 percent; beef, soda and yogurt, 23.1 percent; crawfish and syrup, 21.2 percent. The other items in the local food purchases list, Table 4, were purchased by less than 20 percent of the respondents.

Table 5 indicates that only 3.8 percent (2 respondents) of the respondents thought that using local foods increased their sales. The local food movement seems to have a long way to go in Louisiana.

Louisiana restaurant customers do not seem particularly interested in local foods with most asking about local food asking either seldom or occasionally (Table 6).

Table 7 shows that over 55 percent of the locally owned restaurants were members of the Louisiana Restaurant Association and 40.4 percent were Chamber of Commerce members. Both the groups could assist with promoting the local foods incentive and movement if they are well informed.

Table 4. Local Food Purchases

|                      | Frequency | Percent |
|----------------------|-----------|---------|
| Fruit                | 26        | 50.0    |
| Vegetables           | 42        | 80.8    |
| Preserved Vegetables | 4         | 7.7     |
| Poultry              | 18        | 34.6    |
| Beef                 | 12        | 23.1    |
| Pork                 | 7         | 13.5    |
| Lamb                 | 2         | 3.8     |
| Seafood              | 22        | 42.3    |
| Fresh Water Fish     | 9         | 17.3    |
| Crawfish             | 11        | 21.2    |
| Other Meat           | 2         | 3.8     |
| Beer                 | 7         | 13.5    |
| Wine                 | 10        | 19.2    |
| Soda                 | 12        | 23.1    |
| Other Drinks         | 14        | 26.9    |
| Spices               | 7         | 13.5    |
| Flour                | 10        | 19.2    |
| Sugar                | 10        | 19.2    |
| Syrup                | 11        | 21.2    |
| Cheese               | 6         | 11.5    |
| Milk                 | 9         | 17.3    |
| Ice Cream            | 14        | 26.9    |
| Yogurt               | 12        | 23.1    |
| Cream                | 4         | 7.7     |
| Butter               | 8         | 15.4    |
| Other Dairy          | 10        | 19.2    |
| Condiments           | 2         | 3.8     |
| Tofu                 | 4         | 7.7     |
| Other Soy            | 13        | 25.0    |

Table 5. Does Local Food Increase Sales

|               | Frequency | Percent |
|---------------|-----------|---------|
| Definitely    | 2         | 3.8     |
| No Difference | 50        | 96.2    |
| Total         | 52        | 100.0   |

Table 6. How Frequently Customers Ask if Local Food Is Used

|              | Frequency | Percent |
|--------------|-----------|---------|
| Seldom       | 1         | 1.9     |
| Occasionally | 51        | 98.1    |
| Total        | 52        | 100.0   |

Table 7. Respondent Association Membership

|                         | Frequency | Percent |
|-------------------------|-----------|---------|
| Restaurant Association  | 29        | 55.8    |
| Chamber of Commerce     | 21        | 40.4    |
| BBB                     | 9         | 17.3    |
| Hospitality Association | 5         | 9.6     |
| Other                   | 3         | 5.8     |
| Total                   | 52        | 100.0   |

### Conclusion

This paper clearly shows that in Louisiana, the local food movement has not caught on at least prior to the passing of the Louisiana Buy Local Purchase Incentive Program. While many restaurants seem to buy local foods, there is little reason to think that restaurateurs who do not think that local foods increase sales and few customers interested in local foods will change their behavior quickly. A follow up study should focus on any potential changes in restaurant owners' decision of buying local after the Louisiana Buy Local Purchase Incentive Program is introduced.

### Importance for Practitioners and Policy Implications

Based on the limited study, it would seem that those who want to promote local food use by restaurants have a substantial educational task to both the public at large and restaurateurs. Restaurateurs and/or their associations have little incentive to buy and use or encourage their members to buy and use local food until restaurant customers have a desire and/or a preference for local food. Individuals and groups interested in promoting local foods will need to encourage the legislature and trade groups such as the Louisiana Restaurant Association to become involved in the effort. This promotion will cost money and manpower. The legislature could provide some funds to promote local foods and, perhaps, the LRA can provide most of the manpower.

Local extension agents from the LSU Agriculture Extension Service could prepare and deliver programs on the benefits to individuals of eating local foods. This program could become an important tool for promoting local foods to the public.

If local food purchases are to become a reality, this promotional effort will become the cornerstone of that effort. Without it, Louisiana will not achieve this important goal.

If the intent of the Louisiana legislature was to encourage restaurants to buy and use local foods, an information campaign will be needed that emphasizes to the public that local food is a good thing to do. A similar campaign to restaurateurs emphasizing the 4 percent incentive from the Louisiana buy local purchase incentive program will be needed.

These campaigns could be conducted through the LRA or Chambers of Commerce.

The funding for this effort could come from the Louisiana legislature. The Louisiana Department of Agriculture and Forestry should lend it support to the effort since Louisiana farms and fisheries would be major beneficiaries of the effort.

The Louisiana legislature has provided leadership to an important initiative through the Louisiana buy local purchase incentive program. For the intent of this leadership to be realized, an educational program designed to promote local foods is needed.

## References

- Hamilton, N.D. (October 29, 2005). "Farmers' Market Policy: An Inventory of Federal, State, and Local Examples," Prepared for *Project for Public Spaces*, Drake University Agricultural Law Center, Des Moines, IA.
- Kantor, L.S. (2001). "Community Food Security Programs Improve Food Access," *Food Review*, Vol. 24, pp. 20-26.
- Louisiana buy local purchase incentive program *LA Rev Stat § 3:284*
- Matteson, G., & R. Heuer. February 18, 2008. "Growing Opportunity: The Outlook for Local Food Systems," *Farm Credit Council Report*.
- Starr, A., et al. 2003. "Sustaining Local Agriculture: Barriers and Opportunities to Direct Marketing Between Farms and Restaurants in Colorado," *Agriculture and Human Values*, Vol. 20, pp. 301-321.
- USDA, 2009. <http://www.nal.usda.gov/know-your-farmer-know-your-food>
- U.S. Department of Agriculture, Food and Nutrition Service. 2010a. *Farm to School*. Accessed February 2010 at: <http://www.fns.usda.gov/cnd/F2S/Default.htm>
- U.S. Department of Agriculture, Food and Nutrition Service. 2010b. *Supplemental Nutrition Assistance Program: Frequently Asked Questions*. Accessed April 2010 at: <http://www.fns.usda.gov/snap/faqs.htm#18>
- USDA, 2012. <http://www.usda.gov/wps/portal/usda/usdahome?contentid=2012/09/0305.xml&contentidonly=true>

## Church Income Regulations to Keep Non-Profits from Losing Their 501-3C

Don Bradley, University of Central Arkansas

Luke Pruett, University of Central Arkansas

Church is one of the largest business industries in our country today. According to Barna Group they had calculated that two-thirds of all adults had given to their church or place of worship in 2004. Along with this statistic of how many people gave, they also calculated that the average amount of giving per donor in 2004 was \$895 per donor. A reason for such large donation amounts is not only are the people called to give back to their place of worship, but every donor knows that with their donations they can receive a tax deduction for the amount of money they give. This tax advantage is made possible by the IRS ruling of every church being able to file under the tax identification of 501 c3. There are many rules to make sure that a church or organization that has the 501 c3 status follows to keep their tax exempt status. One violation that is starting to cause many church doors to be closed today is the abuse of unrelated business income tax. Whether, the church knows that what they are doing to produce income is legal is not an excuse to be used when the IRS detects this fraud and has major ramifications that cause some churches to close. Mark Robbins, writer of the article "Other Ways Nonprofits Can Get In Trouble With The IRS," states that in 2011 according to the Washington Post, roughly 8,400 tax-exempt organizations lost their tax exempt status in the Washington D.C. area. This shows that the IRS is starting to crack down on tax exempt organizations and churches that are not following the law of their privileges.

History of the church goes back all way to when the founders of this country came to America, and then with the people who wrote the Constitution. One of the major reasons the Pilgrims ventured to America was for religious freedom from the government of England. They wanted a place where they could go worship however they wanted without the government regulating what was right or wrong. In reading, "Historical Development and Present Law of the Federal Tax Exemptions for Charities and Other Tax-Exempt Organization," the researchers learned that in 1913 the first statutory income tax exemption included religious, scientific, and educational purposes. So, there is rich history in what our founding fathers wanted when they developed this country, but with people abusing the benefits received or scamming people there has been more public push from the people who are opposed to the tax exemption status for religious organizations. There are multiple things a church has to establish to receive their tax exemption status, and then lots of things they must abide by to keep their status from being lost. First, the IRS defines a 501 c3 as, "an organization must be organized and operated exclusively for exempt purposes set forth in section 501 c 3, and none of its earnings may inure to any private shareholder or individual." The reason the government just states religious organizations and does not give an exact definition of a church is because they do not want to make a broad definition because it would cause some abuse, and on the flip side too narrow of a definition might interfere with constitutional guarantee (2011 Church and Clergy Tax Guide). With the absence of a clear definition there have been three tests that have been established to help make a distinction of what a church is and what it is not. The three tests are the De La Salle approach, the Associational test, and then the IRS's 14 criteria they look for specifically. The De Le Salle approach gets its name from a court case that was dealing with a fraudulent case. This approach goes with the common use of the word 'church' since there is no clear definition from Congress on what a church is defined as. Next, the association test is used more prevalently by courts. Here there has to be clear association of the church to religious activities. What the IRS or courts are looking for is that it is open to the public, regularly conducts public worship, it has promulgation doctrine, and is educational instruction (2011 Tax and Clergy Guide). The last test for trying to determine a church is the IRS's 14 criteria. The criteria are as follows:

- (1) a distinct legal existence;
- (2) an organization of ordained ministers;

- (3) a literature of its own;
- (4) a recognized creed and form of worship;
- (5) a formal code of doctrine and discipline
- (6) regular congregations;
- (7) a definite and distinct ecclesiastical government;
- (8) regular religious services;
- (9) a membership not associated with any church or denomination;
- (10) established places of worship
- (11) a distinct religious history
- (12) sunday schools for religious instruction of the young;
- (13) schools for the preparation of its ministers; and
- (14) ordained ministers selected after completing prescribed studies.

These three tests are things that lead to a pretty good indication of the establishment of a church, or if there is a scam going on. As stated before, there is no definite definition so this does leave room for a church to not necessarily pass one of these tests and still be considered a church.

Once a church has been established there are many things they are allowed to do. There are a number of things that they need to do to make sure they are not committing fraud. First, a few benefits of being a church and becoming a 501 c3 is that donations to the church are tax deductible for the donor, you receive a sales tax exemption in most states and pastors can receive a housing allowance. Currently, one of the biggest debates in court is the housing allowance that ministers receive. According to FreeChurchAccounting.com, "A housing allowance is the greatest tax benefit available to ministers. It is also one of the least understood." There has been some misunderstandings on the part of ministers in trying to claim multiple housing. The housing allowance allows a minister to receive payment of housing cost in advance from the employer that is designated to that minister. This housing allowance is not only in advance, but it goes untaxed (this exemption was made as a benefit to the minister of a small town church that cannot pay much for a minister, but needs someone to lead their church. Now, we have some ministers that make millions a year and have multiple houses that they claim a housing allowance on that has caused groups like the Atheist Alliance International to try and get the housing allowance taken away.

Even though there are great benefits for churches, there are rules that they must follow closely. When a church acts recklessly and does not abide all the regulations whether on purpose or by accident, there are some serious fines or even closure of the church. One regulation that is starting to be scrutinized a little more is the unrelated business income tax (UBIT). This is something that is causing problems because many ministers in the church understand that they need more money than they generate so they start trying to think of ways to bring in money to keep the doors open at the church. This is where management needs to know exactly what their tax exempt purpose is, so that they can identify these other income making operations as either a part of the tax exempt purpose or not. Once they received the favorable tax identification they are now under the law of having to primarily operate under its tax exempt purpose. Anything that falls outside of the churches' tax exempt purpose is subject to federal tax. This income produced outside of the primary purpose is often assessed in the following manner to see what happens next with that money. In some situations the term primary has been quantified by percentages such as 15 percent is incidental, 65 percent is enough for unrelated business income purpose, 85 percent is substantial, and 90 percent is substantially all. (10) Many churches are conducting things that produce income for the church to do certain things and do not realize the implications that they are facing if the IRS happens to investigate their church. The reason for there to be distinction between related and unrelated business income is so that the for-profit businesses that are not joined with a non-profit has fair competition with the ones that are joined with not-for-profits.

No one in the government wants to shut the doors of churches for no reason, but when there is a violation sometimes that is the only answer. From a first glance of the definition of unrelated business income tax, one might think that it is easy to distinguish what is related and what is not. This can sometimes be one of the hardest things management will do. On the simpler side one could say that any income that does not advance the exempt purpose substantially is unrelated. To counter that thought, just because an activity earns money that is used for exempt purposes does not automatically make the activity related to the tax exempt purpose. Luckily, there has been a list constructed that will allow management to question what is going on to help them be able to justify if the activity they are operating is considered related or unrelated purpose. As the researchers read the book, "Nonprofit Law for Religious Organizations," written by Bruce Hopkins and David Middlebrook, a list of five questions that help analyze the complexity of whether an activity is considered related or unrelated was found. Here is the list of five questions for a church to answer:

- 1) Is the activity a trade or business?
- 2) Is the activity regularly carried on?
- 3) Is the conduct of the activity substantially related to the conduct of exempt organizations functions?
- 4) Is the activity exempted from taxation by one or more statutory exceptions?
- 5) Is the income from the activity exempted from taxation by one or more statutory exceptions?

Sometimes it is hard to really understand what would pass all the tests and requirements. So, by examining a couple of real court case decisions, followed by a flowchart, that should allow things to become more apparent as to unrelated business income tax. The following couple of examples are from the 2011 Tax and Clergy Guide that is given to thousands of churches to use as a financial guide for problems just like unrelated business income tax. First example, a Catholic religious Order owned and maintained a 1,600-acre farm that produced crops and livestock for commercial markets. After investigation the IRS insisted that the farm was generating unrelated business taxable income, but the disagreement came from the Tax Court. The court rejected the IRS because they stated that the farm was not running for the purpose of profit and that the farming operation was substantially related to its tax-exempt status. During the investigation information was gathered that proved that 91% of the labor was provided without compensation, by members of the Catholic Order. Another point the IRS brought up to the Tax Court that was eventually ruled out was the fact that the workers of the Order were receiving noncash compensation. After further due diligence from the Tax Court, they decided to reject the noncash compensation allegation on the basis that the members would have received room and board even if they performed no work or the farm operations ceased.

Second example found out of the 2011 Tax and Clergy Guide, is a situation that was engaged in an unrelated trade or business. A religious organization was engaged in evangelizing and rehabilitating drug addicts and street people in a communal setting. Persons in the program were expected to work in one of the organization's businesses, which included forestry, housecleaning, and painting. The Tax Court ruled that such businesses were not substantially related to the organization's religious purposes, and therefore the income derived from the businesses was taxable as unrelated business income. The court distinguished the previous example about the Farm with respect to the applicability of the volunteer labor exception. The members would have been provided food and housing even if they had not engaged in farming operations. *Shiloh Youth Revival Centers vs. Commissioner*, 88 T.C. 29 (1987).

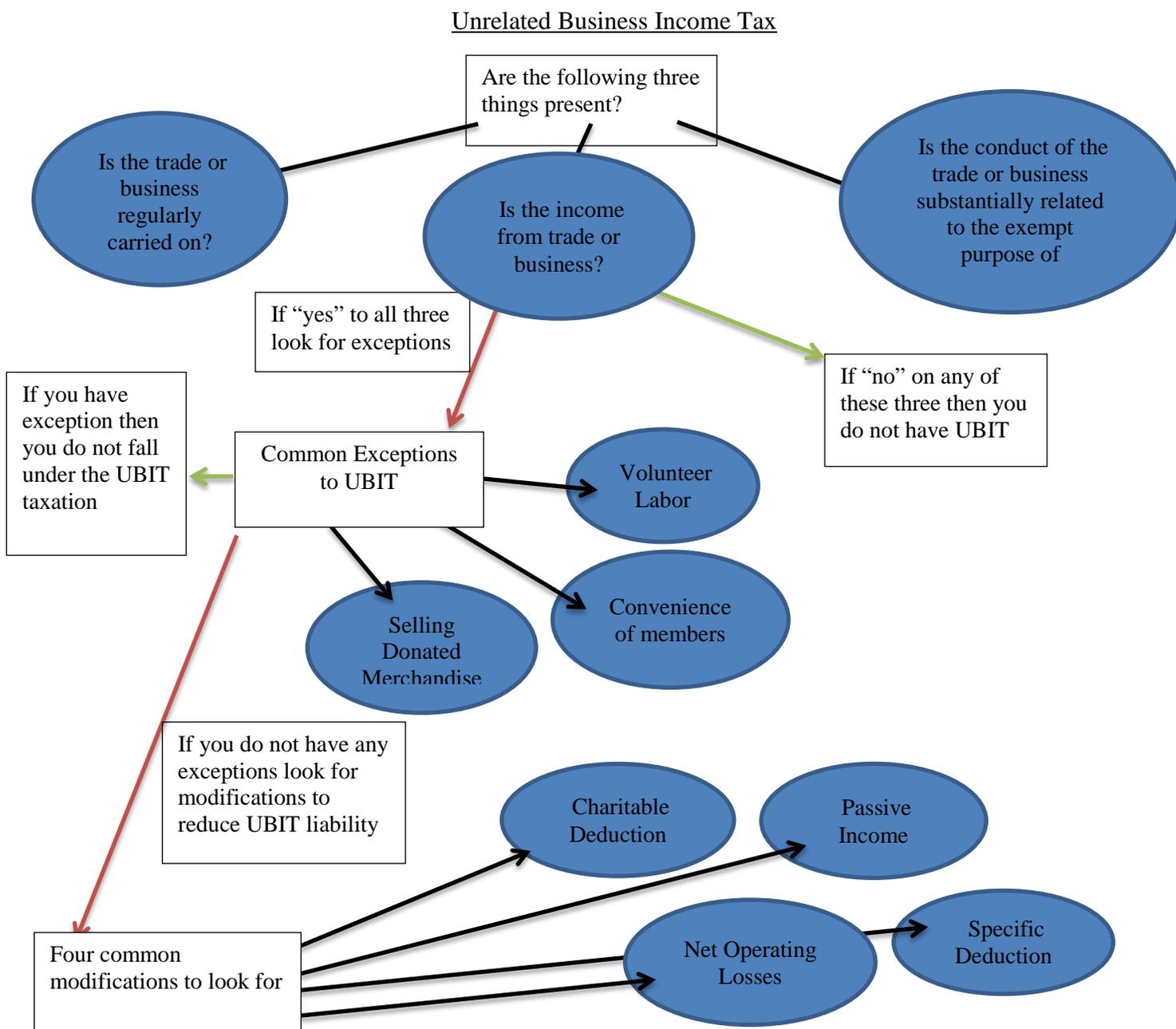
After discussion the importance of unrelated business income tax (UBIT) and how to determine if a venture falls under its tax regulations, there is a flowchart that has been designed to help make the process more simplistic. The flowchart should be used when determining if a venture that is already in practice qualifies for unrelated business income, and also in determining what needs to be incorporated to new ventures to keep it from jeopardizing the 501 c3 status. This flowchart covers the most basic principles of establishing related business. So, feel free to use this chart to establish if the ventures income is from related or unrelated business.

In reading the diagram below, notice three main things about the order of the diagram: the factors, the exceptions, and the common modifications to help lower the unrelated business income tax liability. There are many things that occur to help determine if you should be filing unrelated business income tax or not. Below is a more detailed synopsis of what each step represents according to the Ellis Carter, a writer for Charity Writer a daily dose of nonprofit law website.

**Are the following three things present?**

**1. Income from trade or business**

There are multiple ways that one can define a “trade or business,” but the IRS is of top importance. They determine a “trade or business” to be a venture that is started with the desire of the venture to produce a profit. This definition is stretched out to cover many activities that tax-exempt organizations are allowed to operate.



## **2. Trade or business is regularly carried on**

When determining whether or not a venture is “regularly carried on” the factors that are being considered are the frequency and continuity of the venture. The example used by Ellis Carter is a venture that is carried on seasonally versus a venture that is a one-time sale. The one-time sale is not considered to be regularly carried on by the tax-exempt organization, so they would not be in harm of the UBIT regulations. On the other hand if a venture was carried on seasonally then the organization would have to follow the UBIT regulations due to the venture being operated for around 25% of the year.

## **3. Conduct of trade or business is not substantially related to 501 c3 exempt purpose**

To determine if this is a violation or not there needs to be a clear understanding of what the exempt purpose is of the organization, and what all is required for that purpose to be fulfilled. When determining if a venture is substantially related, the standards state that whatever the venture provides must contribute importantly to the completion of the 501 c3 exempt purpose.

### **Common Exceptions to UBI treatment**

#### **1. Volunteer Labor**

There is a little exception to this rule as well, but basically whenever all the work is performed with no compensation then the “trade or business” is excluded. Some basic examples of this are a fund-raising activity like a volunteer bake sale, museum shop, or clothing store.

#### **2. Convenience of Members**

Ellis Carter described this as, “Any trade or business is excluded that is carried on by an organization described in 501(c) (3) primarily for the convenience of its members, students, patients, officers, or employees.” A typical example of this would be a hospital, school cafeteria, bingo, parking lots, or trade shows.

#### **3. Selling Donated Merchandise**

Any venture that sells only merchandise that has been donated is excluded. A common example could be a church bookstore that sells only books that are donated from other Pastors, or members of the church.

### **Four Common Modifications to Eliminate or Reduce UBIT Liability**

Even though a venture will use the top three questions to determine what kind of income is produced, below are four common modifications that can be used to a venture’s advantage if the income is considered “unrelated.”

#### **1. Charitable Deduction**

This is a major tax break that many individuals and large corporations use every year. The “trade or business” can deduct up to 10% of the ventures UBI. The only restriction is that the money being deducted must have been contributed to another tax-exempt organization.

#### **2. Passive Income**

When thinking of passive income for a venture there are four ways that income can be derived and still be exempt from UBI. First, dividends or interest that is accrued through loaned securities. Second, rental income is excluded as long as over 50% of the income is not from personal property. Also, when dealing with rental property if services outside of a landlord’s responsibility such as house cleaning for income would cause the income to not be considered passive. Third, exclusion is normally granted when there is a gain or loss on the sale of property. Last, it is appropriate to exclude royalties from UBI. This contains all proceeds from licensing of trademarks, patents, and mineral rights. The main thing when dealing with passive income is that a venture may never use loaned financing or debt when trying to deduct passive income.

### **3. Net Operating Losses**

A “trade or business” is allowed to deduct the total of the net operating loss carryovers and carrybacks for the tax year. These losses must have been incurred by the venture alone to be deductible.

### **4. Specific Deduction**

The IRS granted a specific deduction that can be made for \$1,000, but is not allowed to be in the calculation of net operating losses. Regardless of how many unrelated businesses conducted, only one specific deduction may be permitted.

A little extra rule to be considered as by a venture would be to investigate what is called “fragmentation.” Hurwit and Associates did a great job breaking down the “fragmentation.” The IRS code states, “an activity does not lose identity as a trade or business merely because it carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which may, or may not, be related to the exempt purposes of the organization.”

Once a church has figured out how to determine what activities will produce unrelated income, they must put some kind of control process in place to allow the church from violating the law. When approaching the control process there are other factors that may contribute how the checks and balances are established. Here, we are going to look at three different methods of checks and balances based on the size of the church. So, we will establish a small, medium, and large church. By looking at the size of a church we can make some generalities about how well staffed the church may be. According to Rebecca Barnes and Linda Lowry, writers for churchleaders.com, who did extended research on church sizes in America, it was established that the average church population is 124 members. Next, they defined a small church as less than 100 members, a medium size church consist 100 to 299 members, and a large church has a population greater than 299 members.

The reason that these researchers would prefer to look at the size of a church congregation is that the population is a good indicator of the size of staff the church has employed. In the case of the small church, they most likely do not have a finance department, but probably has a volunteer accountant or businessman that does the accounting for the church. This would be the right person, or even appoint a trustee that is well versed in business to be the overseer of all income producing activities that happen in the church. Before an activity occurs that involves making money, the person heading the activity must get approval from this appointed person to host the event, and how to properly host it to avoid taxes. Next, the medium size church, most likely has at least one person on payroll that is in charge of the finances for the church. This person is the one that should have the approval rights for all income producing activities that occur in the church. For good separation of duties, the church could appoint someone in the church that is an accountant or businessman to also approve income producing activities so that all the power is not in one person’s hand. No one person is perfect so this could help keep any mistakes from falling through the cracks. Last, the large church will have a whole group of people on payroll that work in the finance department of the church. With a large church and finance staff there should be very clear written out processes about how to request doing an income producing activity and then a detailed list of what things are allowed and what is not allowed. If a church wanted they could use the very flow chart that was developed in this article above. With multiple checks and balances in the same office they will be able to make sure every activity follows the law. Most importantly, this task of approving income producing activities should not be done by the senior pastor of the church. In small churches, there could be some involvement by the associate pastor, but the senior pastor should not be the one to approve.

In conclusion, there are many things that a church may be able to do to help produce some income for itself, but they must be careful that it is documented and regulated properly. With the tax law changing all the time it is important for every organization to stay in touch with tax law professionals for nonprofit organizations. The most important thing that a church will want to do is keep its 501 c3 status. With the massive amounts of persecution on the church getting as many exemptions as it does, it is only a matter of time until the UBI is closely scrutinized in all churches. The large churches in America are starting to get watched, but the small ones or unregulated ones must catch up to speed on how they operating so that the doors of the church are not forced to be closed.

### References

- Hopkins, Bruce R., Middlebrook, David O. "Nonprofit Law for Religious Organizations- Essential Questions & Answers." *John Wiley & Sons, Inc.*, Hoboken, New Jersey. 2008.
- Hammar, Richard R., J.D., LL.M., CPA. "2011 Church and Clergy Tax Guide." *Your Church Resources/Christianity Today International*. 2011.
- Evangelical Council for Financial Accountability. "*The Law of Tax-Exempt Religious Organizations.*" [www.ecfa.org](http://www.ecfa.org).
- Robins, Mark. "Other Ways Nonprofits Can Get In Trouble With The IRS." *Aronson Nonprofit Report*. [www.aronsonblogs.com](http://www.aronsonblogs.com)
- Accounting for Small Churches and NonProfit Organizations. "*Setting up a Housing Allowance.*" [FreeChurchAccounting.com](http://FreeChurchAccounting.com). 2008.
- Busby, Dan. "Before the IRS Calls on Your Church." *Evangelical Council for Financial Accountability*. [www.ecfa.org](http://www.ecfa.org). 2012.
- Hurwit & Associates. "Taxation on Unrelated Business Income." *Nonprofit Law Resource Library*. 2012.
- "Tax Guide for Churches and Religious Organizations." *Department of the Treasury of the Internal Revenue Service*. [www.irs.gov](http://www.irs.gov). 2009.
- Middlebrook, David. Rucker, Robert W. "Does the church bake sale threaten your tax-exempt status?" *Church Executive*. [www.churchexecutive.com](http://www.churchexecutive.com). 2010.
- Barnes, Rebecca. Lowry, Lindy. "7 Startling Facts: An Up Close Look at Church Attendance in America." [www.churchleaders.com](http://www.churchleaders.com). 2011.

# Cultural Differences, Knowledge Conversion and the Championing Strategies

Dmitry Khanin, Texas Tech University  
Raj Mahto, University of New Mexico

## Abstract

We propose that Hofstede's (1980) cultural dimensions of individualism-collectivism, masculinity-femininity, power distance, uncertainty avoidance and long-term-short-term orientation influence the efficacy of socialization, internalization, externalization and combination, i.e. the four principal constituents of knowledge conversion in organizations (Nonaka, 1994). Respectively, we argue that the capabilities for socialization, internalization, externalization and combination will respectively be associated with the championing strategies of mentoring, adaptation, leadership and collaboration employed by champions to spearhead innovation.

## Introduction

In the last two decades, several studies have examined how cultural differences may influence the generation of new knowledge, internal corporate venturing and product championing strategies (Shane, 1992; 1994; Shane, Venkataraman, & MacMillan, 1995; Nakata & Sivakumar, 1996; 2001; Greve, Engelen, & Brettel, 2009). Scholars have shown that culture dimensions may strongly influence championing strategies that encompass (1) making personal appeals to organizational stakeholders to gather cross-functional support; (2) seeking to include organizational members and other stakeholders into the innovation decision making process; (3) employing formal mechanisms for the purposes of new product development such as projections and planning; (4) using informal mechanisms to spearhead innovation, for example, interaction, communication and cooperation; (5) establishing support for innovation by using the hierarchy; (6) closely monitoring innovators; and (7) allowing innovators to break norms, rules and procedures, etc. (Shane, 1992; 1994; 1995; Shane et al., 1995; Nakata & Sivakumar, 1996; 2001).

More recent research has demonstrated that the dimensions of culture may be associated with the absorptive capacity in society (Greve et al., 2009) broken down into the interrelated activities of (1) acquisition of external knowledge; (2) assimilation of knowledge within an organization; (3) transformation of knowledge for the purposes of generating new knowledge internally; and (4) knowledge exploitation based on knowledge acquisition, assimilation and transformation (Greve et al., 2009). In this study, we seek to advance research on the impact of culture dimensions on knowledge management and championing strategies in organizations. Consequently, we examine the effect of individualism-collectivism, masculinity-femininity, power distance, uncertainty avoidance, and short-term vs. long-term orientation on the efficacy of knowledge conversion in organizations broken down into the four principal activities of socialization, internalization, externalization and combination (Nonaka, 1994). Respectively, we argue that championing strategies will be affected by the strengths and weaknesses in particular areas of knowledge conversion influenced by culture dimensions. We contend that the capabilities for socialization, internalization, externalization and combination will respectively be associated with the championing strategies of mentoring, adaptation, leadership and collaboration employed by product champions in their organizations to spearhead and implement innovation.

### *Individualism vs. Collectivism and the Efficacy of Knowledge Conversion*

Individualism stands for a "loosely knit social framework in society in which individuals are supposed to take care of themselves and their immediate families only" whereas collectivism represents a preference for a tightly knit social framework in which individuals can expect their relatives, clan, or other in-group to look after them" (Hofstede, 1980; 1985: 348). In the innovation management literature, individualism has been

associated with the ability to take a stand and defend an unpopular but promising product or idea despite the resistance of other, often entrenched and empowered members of an organization (Nakata & Sivakumar, 1996; 2001). For instance, product champions may forge ahead and promote an innovative approach or technology and keep asking embarrassing questions openly challenging the authority of powers that be (Chakrabarti, 1974; Fry, 1987). The qualities of nonconformity, self-confidence and perseverance (Nakata & Sivakumar, 1996) are clearly associated with individualism rather than collectivism.

In gist, individualistic societies may foster nonconformism and the courageous ability to challenge the authority and status quo. However, collectivistic cultures also nourish the impetus for innovation although in a different way. For instance, a clan-like culture may create a sense of belonging and a feeling of obligation to contribute to society as well as one's company, division or cross-functional team (MacDowall, 1984; Nakata & Sivakumar, 1996). Collectivistic cultures build on strong ties between their members whose identity is shaped by adherence to a certain social group, work group or team (Greve et al., 2009). As a result, collectivistic cultures can be more amenable to communication, interaction and cooperation among organizational members increasing their level of mutual trust (Doney et al., 1998). Such interaction, communication and cooperation are often performed at an informal and routine level which enhances their effectiveness (Chen, Chen, & Meindle, 1998; Greve et al., 2009).

In sum, both individualism and collectivism may positively impact on the culture of innovation. Individualism contributes to the emergence of championing strategies based on bravely challenging the status quo and hierarchy. As such, it is conducive to the formation of new ventures and investment culture represented by business angels and venture capitalists (VCs). These investors often use contrarian strategies to endorse new ventures that cannot secure support from established financial institutions such as banks. Individualistic attitudes commonly permeate entrepreneur and investor cultures alike. Individualism has been associated in the literature with the initiation stage in new product development since "drive, nonconformity and personal vision" help spearhead innovation (Nakata & Sivakumar, 1996: 63). In contrast, collectivism has been related to the implementation phase of new product development since "interdependence, cooperation and unified purpose" represent important constituents of exploitation (Nakata & Sivakumar, 1996: 63). Furthermore, cultural collectivism may be extremely useful for gathering a broad, cross-functional support for innovative ideas within an organization (Shane, 1994; Shane et al., 1995).

Both individualism and collectivism may also facilitate the development of absorptive capacity in organizations (Cohen & Levinthal, 1990; Zahra & George, 2002; Greve et al., 2009). Such absorptive capacity has been broken down in the literature into the four critical functions: (1) acquisition (organization's capability to detect and acquire externally generated knowledge); (2) assimilation (organization's capability to put in place special processes or routines used to analyze, process and communicate or disseminate knowledge inside an organization); (3) transformation (organization's capability to adapt its "cognitive schemas to absorb new knowledge") and (4) exploitation (organization's capability to create new routines based on the acquired, assimilated and transformed knowledge) (Cohen & Levinthal, 1990; Zahra & George, 2002; Greve et al., 2009: 21 – 22). Correspondingly, individualism has been associated with acquisition and transformation whereas collectivism has been related to assimilation and exploitation (Greve et al., 2009).

To advance research on the influence of culture dimensions on knowledge management in organizations, we begin with investigating the effect of cultural individualism-collectivism on the ability of an organization to exercise several types of knowledge conversion: (1) socialization (converting tacit knowledge at the organizational level into tacit knowledge at the individual level through shared experience); (2) combination (converting explicit knowledge at the individual or organizational level into explicit knowledge at the individual or organizational level through sorting, adding, recategorizing and reconceptualizing); (3)

externalization (converting tacit knowledge into explicit knowledge by way of articulation and use of metaphor, analogy and model); and (4) internalization (converting explicit knowledge into implicit knowledge through learning by doing, conducting experiments and simulation and employing action and practice, in general) (Nonaka, 1994; Nonaka, Toyama, & Konno, 2000).

Individualism facilitates articulation of ideas that may not be embraced by other members of society or group or even be unfamiliar to them (Shane, 1994; Nakata & Sivakumar, 1996). This is why individualism is likely to be positively related to externalization. Champions in collectivistic societies may hesitate to externalize their inner thoughts for external audience, especially when such thoughts run counter to the established tradition and consensus in an organization. Conversely, champions in individualistic societies are more likely to feel that it is incumbent on them to externalize their inner thoughts precisely because they run counter to the status quo. Consequently, champions may use their capability for externalization as part of their leadership strategy. They may externalize their inner thoughts and intuitions to succeed in convincing a team or an entire organization or alliance to adopt an innovative idea, product or approach.

In addition, individualism can also be positively associated with the capability for internalization since conducting experiments and learning by doing often involves a substantial element of self-education. A person that is more aware of his or her individual learning style could also be more effective in internalizing explicit knowledge. Conversely, somebody who does not understand his or her individual strengths and weaknesses in the area of knowledge acquisition, transformation, assimilation and exploitation (Greve et al., 2009) may not be able to effectively internalize difficult to understand explicit knowledge that often can better be grasped through personal experience. To summarize, we expect individualism to be positively related both to knowledge externalization (converting tacit into explicit knowledge via articulation) and knowledge internalization (converting explicit into tacit knowledge via simulation), especially during the innovation process characterized by speed and emphasis on tacit, difficult to codify knowledge.

In addition, the capability of externalization, in our view, may facilitate the development of organizational leadership skills since leaders need to be able to effectively articulate their thoughts and transfer tacit into explicit knowledge in order to enlighten and motivate their followers. Therefore, we propose that product champions capable of externalization as one of the principal constituents of knowledge conversion will be able to effectively use leadership as the basis of their championing strategy. In turn, the capability of internalization facilitates quick absorption of information that allows reacting effectively to the ongoing environmental changes. Consequently, champions that are effective at internalization could be capable of expedient adaptation. Adaptation represents a valuable championing strategy that enhances the absorption capability (Greve et al., 2009) and allows product champions to instantaneously adjust their direction. Therefore:

Proposition 1a: The higher the level of cultural individualism, the higher will be the ability of champions to build on externalization capability and use leadership as the key championing strategy.

Proposition 1b: The higher the level of cultural individualism, the higher will be the ability of champions to build on internalization capability and use adaptation as the key championing strategy.

Collectivism, however, has its own virtues during the innovative process as it is likely to stimulate socialization and combination. Collectivist mentality emphasizes support for others and inclusiveness (for in-group but not out-group members) which makes it easier for the new recruits to grasp how things are done in a particular organizational or task environment. Furthermore, collectivist cultures place a premium on

conformist behavior and this stimulates the desire of new recruits to learn the rules of the game and feel as part of the group patterned after the family. Continual, informal interaction and effective interorganizational cooperation facilitate new group member socialization. In this situation, champions may build on socialization capability to develop a mentoring strategy that allows expediting support for innovation by quickly getting new organizational members up to speed and converting them into new, rising champions.

In turn, combination or synthesis of explicit knowledge generated in different parts of an organization and raising it to a new level can be easier to practice effectively in collectivist cultures. Such cultures intentionally work on creating esprit de corps and avoiding conflict as something inherently negative. As a result, organizational members are more likely to develop commitment to the organization as a whole and feel less bound by various organizational barriers and personal likes and dislikes and perceived individual incompatibilities. For these reasons, interorganizational interaction in collectivist cultures could be more productive and creative resulting in enhanced capability for combination. Building on such capability for combination, champions may further contribute to success of innovation by forging interorganizational alliances. Respectively, champions may use collaboration strategy to spearhead and implement innovation. Therefore:

Proposition 1c: The higher the level of cultural collectivism, the higher will be the ability of champions to build on socialization capability and use mentoring as the key championing strategy.

Proposition 1d: The higher the level of cultural collectivism, the higher will be the ability of champions to build on combination capability and use collaboration as the key championing strategy.

Table 1 summarizes the predicted effects of individualism and collectivism on knowledge conversion capabilities in organizations and championing strategies built on the respective capabilities.

Table 1. The impact of individualism vs. collectivism on knowledge conversion capabilities in organizations.

| Knowledge Conversion/Championing Strategy | Individualism | Collectivism |
|---|---------------|--------------|
| Socialization (Mentoring Strategy)        |               | X            |
| Internalization (Adaptation Strategy)     | X             |              |
| Externalization (Leadership Strategy)     | X             |              |
| Combination (Collaboration Strategy)      |               | X            |

#### *Femininity vs. Masculinity and the Efficacy of Knowledge Conversion*

Masculinity “stands for a preference for achievement, heroism, assertiveness, and material success; as opposed to *Femininity*, which stands for a preference for relationships, modesty, caring for the weak, and the quality of life” (Hofstede, 1980; 1985: 348). Both masculinity and femininity may facilitate innovation as masculinity enhances the tendency for purposefulness and formalization whereas femininity is associated with attention to people and supportive climate (Nakata & Sivakumar, 1996). Respectively, femininity is characterized as being conducive to the initial stage of new product development whereas femininity is characterized as being conducive to the implementation stage of new product development (Nakata & Sivakumar, 1996). Importantly, cultures can be collectivistic but masculine, such as Japan, where the collectivistic feeling of embeddedness in tradition and organizational culture is combined with an aptitude for formalization and purposefulness and the ability to set ambitious goals (Parry & Song, 1993; Nakata & Sivakumar, 1996).

Masculinity and femininity may also facilitate or constrain different types of knowledge conversion. Thus, masculinity is likely to facilitate combination as achievement-oriented individuals and organizational cultures are likely to use formal methods of collaboration and planning. This may allow avoiding excessive emphasis on personal relationships that could substantially slow down the efficacy of combination activity since relationship building takes time and may not always be effective. Masculinity facilitates collaboration with different types of people united by common goals whatever their personal feelings and allegiances may be. It makes it possible to get the job done without wasting much effort on getting to closely know each other, making sure that everyone is on board and building interorganizational consensus and mutual liking over time. In masculine cultures, the assumption is that business relationships are separate from personal relationships so that people may intensely interact at work while keeping other areas of their lives unknown to others and construed as a distinct and discrete domain of privacy.

Masculinity is also likely to facilitate internalization as purposeful, formalized learning could help translate abstract and difficult to understand subjects into familiar, easier to grasp topics. Furthermore, the pursuit of material success perceived as one of the key objectives in masculine cultures could provide the motivation for overcoming the inevitable difficulties associated with learning of challenging and seemingly recalcitrant intellectual and technological issues. Masculine cultures do not subscribe to the belief that modesty is a particular virtue and certainly do not view assertiveness as some kind of a cultural transgression. This allows asking other people for help without being embarrassed and thus effectively resolves specific learning problems. As previously suggested, combination capability may serve as the basis for the championing strategy of collaboration whereas internalization capability may serve as the basis for the championing strategy of adaptation. Therefore:

Proposition 2a: The higher the level of cultural masculinity, the higher will be the ability of champions to build on combination capability and use collaboration as the key championing strategy.

Proposition 2b: The higher the level of cultural masculinity, the higher will be the ability of champions to build on internalization capability and use adaptation as the key championing strategy.

Conversely, cultural femininity is associated with relationship building and fostering supportive environment. The emphasis is on nurturing organizational members, trying to understand and emphasize with them, celebrating the feeling of unity and common accomplishment (Burns & Stalker, 1961; Thwaites, 1992; Nakata & Sivakumar, 1996). Feminine cultures emphasize socioemotional wealth as opposed to purely economic wealth (Cruz et al., 2010). Respectively, organizations may be more oriented toward serving the customer than profit generation (Nakata & Sivakumar, 2000). This orientation results in understanding the marketing concept in altruistic, moral and emotive terms rather than in instrumental and rational terms ((Nakata & Sivakumar, 2001). Therefore, feminine cultures can perform better in service industries where customer knowledge is critical whereas masculine cultures may perform better in manufacturing industries driven by highly formalized, technology-based requirements and guidelines (Hofstede, 1991). Feminine cultures can also be more externally than internally oriented (Day, 1990).

Due to their emphasis on socioemotional support, other-orientation and service, feminine cultures are likely to enjoy certain advantages, compared to masculine cultures, in terms of member socialization. Knowledge experts in feminine cultures could provide greater assistance to their apprentices and make sure that their questions are answered and their skills are continually growing. In addition, feminine cultures could be more conducive to externalization, that is, expressing how one feels about certain organizational issues and developing a better understanding of tacit content in the process. Feminine cultures are likely to value the

skills of good listening and allocate sufficient attention to organizational members encouraged to express their feelings. The difference between feminine and collectivistic cultures lies in that feminine cultures do not contrast in-groups and out-groups but rather emphasize the importance of self-expression. This is what can make such cultures effective in the areas of socialization and externalization. As previously suggested, socialization capability may serve as the basis for the championing strategy of mentoring whereas internalization capability may serve as the basis for the championing strategy of leadership. Therefore:

Proposition 2c: The higher the level of cultural femininity, the higher will be the ability of champions to build on socialization capability and use mentoring as the key championing strategy.

Proposition 2d: The higher the level of cultural femininity, the higher will be the ability of champions to build on externalization capability and use leadership as the key championing strategy.

Table 2 summarizes the predicted effects of masculinity vs. femininity on the efficacy of knowledge conversion.

Table 2. The impact of masculinity vs. femininity on knowledge conversion capabilities in organizations.

| Knowledge Conversion/Championing Strategy | Masculinity | Femininity |
|---|-------------|------------|
| Socialization (Mentoring Strategy)        |             | X          |
| Internalization (Adaptation Strategy)     | X           |            |
| Externalization (Leadership Strategy)     |             | X          |
| Combination (Collaboration Strategy)      | X           |            |

#### *Uncertainty Avoidance and Knowledge Conversion*

Uncertainty avoidance is defined as “the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity, which leads them to support beliefs promising certainty and to maintain institutions protecting conformity” (Hofstede, 1980; 1985: 347 – 348). Societies that are low on uncertainty avoidance feel relatively secure, are optimistic in their view of the future and exhibit tolerance of behaviors that may challenge the status quo (Nakata & Sivakumar, 1996). Conversely, societies that are high on uncertainty avoidance experience considerable anxiety about the future and emphasize the importance of using elaborate laws, planning and technological advancement to attain greater control over the future ((Nakata & Sivakumar, 1996). Differences among societies in terms of cultural uncertainty avoidance manifest themselves in distinct championing strategies (Shane, 1995). Specifically, uncertainty acceptance leads to employing the championing strategies of supporting innovation against interference by the organizational hierarchy; placing emphasis on persuading others to support innovation; providing an opportunity for innovators to violate organizational rules, norms and standard operating procedures; and also deemphasizing the function of monitoring to foster creativity (Shane, 1995).

Respectively, uncertainty avoidance may lead to acceptance of greater interference into the innovation process by the powers that be; placing emphasis on using orders and directives rather than persuasion to spearhead innovation; restricting the opportunity for innovators to violate organizational rules and procedures and providing a comprehensive oversight and control of innovation. Thus, uncertainty avoidance is related to the cultural value placed on stability, uniformity, predictability, control and gradual or incremental rather than radical or revolutionary change (Nakata & Sivakumar, 2001). It is expressed in preferences for using financial rather than strategic controls, elaborate accounting systems and environmental scanning as well as extensive written communication (Hofstede, 1980). In contrast, uncertainty accepting cultures are more optimistic, less controlling, emphasize oral communication and the ability to adapt rapidly.

Correspondingly, uncertainty accepting societies are likely to be more effective in knowledge externalization. This is because uncertainty acceptance does not prevent individuals from seeking to express their tacit understanding in a more articulate and elaborate way that can be used for teaching other organizational members. Although uncertainty avoidance emphasizes the value of explicit rules and regulations, it may create inhibitions for translation of rather vague although intuitively evident ideas into explicit knowledge. Organizational members could be paralyzed by fear that their intuitions may not be adequately translated and fail to serve as bona fide rules and guidelines. In other words, the quasi-sacred status of the existing rules and regulations could make it more difficult for innovators to challenge them. As a result, uncertainty avoiding societies may not benefit from simultaneous generation of new ideas and communicating them to others. Conversely, uncertainty accepting societies may excel at such simultaneous translation which could potentially benefit the ability of their members to serve as leaders.

Uncertainty accepting societies are also more likely to be averse at combination or knowledge synthesis. Although synthesizing explicit knowledge coming from different parts of the organization may be immensely challenging, uncertainty accepting societies could make it easier to accomplish this task by viewing combination as an experimental activity that may take tentative forms and be ironed out over time through experiment and accumulating experimental evidence as well as continual adjustment and change of direction based on the feedback and perceived efficacy. This could help champions in uncertainty accepting societies become better collaborators. Conversely, uncertainty avoidance cultures are unlikely to accept such experimental process of knowledge combination and continuing adaption and adjustment as they are set on crystallizing experience into exact rules that serve as guidelines to be followed religiously. Therefore:

- Proposition 3a: The higher the level of cultural uncertainty acceptance, the greater will be the ability of champions to build on externalization capability and use leadership as the key championing strategy.
- Proposition 3b: The higher the level of cultural uncertainty acceptance, the greater will be the ability of champions to build on combination capability and use collaboration as the key championing strategy.

In contrast, uncertainty avoidance could provide some benefits in terms of socialization and internalization. Due to their quest for uniformity and predictability, uncertainty avoiding societies may put in place elaborate procedures for training their new members and provide sufficient support through mentoring and exposure to practice as well as procedures for oversight. They may excel at the creation of state-of-the-art instructional materials and champions could act as mentors providing both instruction and effective monitoring to new members. Uncertainty avoiding societies may also be apt at enhancing their members' ability to apply the learned explicit knowledge toward actual practice resulting in the enhanced efficacy of conversion – from explicit and tacit expertise at the organizational level to tacit at the individual level. Therefore:

- Proposition 3c: The higher the level of cultural uncertainty acceptance, the greater will be the ability of champions to build on socialization capability and use mentoring as the key championing strategy.
- Proposition 3d: The higher the level of cultural uncertainty acceptance, the greater will be the ability of champions to build on internalization capability and use adaptation as the key championing strategy.

Table 3 summarizes the predicted effects of masculinity vs. femininity on the efficacy of knowledge conversion.

Table 3. The impact of uncertainty acceptance vs. uncertainty avoidance on knowledge conversion capabilities in organizations.

| Knowledge Conversion/Championing Strategy | Uncertainty acceptance | Uncertainty avoidance |
|---|------------------------|-----------------------|
| Socialization (Mentoring Strategy)        |                        | X                     |
| Internalization (Adaptation Strategy)     |                        | X                     |
| Externalization (Leadership Strategy)     | X                      |                       |
| Combination (Collaboration Strategy)      | X                      |                       |

#### *Power Distance and the Efficacy of Knowledge Conversion*

Power distance is defined as “the extent to which the members of a society accept that power in institutions and organizations is distributed unequally” (Hofstede, 1980; 1985: 347). High power distance is positively associated with centralization whereas low power distance is positively associated with decentralization (Nakata & Sivakumar, 1996; 2001). This is because high power distance cultures seek to limit the number of empowered actors since only the chosen few may be viewed as trustworthy and entitled to make important decisions. Thus, high power distance cultures limit delegation and make it harder for people at lower levels of organizational structure to communicate their ideas to superiors. Informal communication and cooperation between those unequal in power is limited which prevents creative exchange and could lead to stagnation.

High power distance encourages the creation of hierarchies in which communication channels are drawn in accordance with the amount of authority vested in each organizational member. Hence, scholars interpret power distance “as a measure of the extent to which hierarchy is culturally accepted in a society” (Steenkamp & Geyskens, 2012: 260). As a result, business organizations may be highly stratified which could inhibit the so called bottom up championing when the initiative for innovation may come from any part of the company (Day, 1994). Due to the fixation of power distant societies on preserving the hierarchy and their low level of trust, transaction costs of firms operating in such hierarchical cultures can be exorbitant (Shane, 1992). Furthermore, while transaction cost economics (TCE) predicts that companies may choose between hierarchies (conducting transactions in-house) vs. markets (conducting transactions with other market actors), the predictive power of TCE may be limited in power distant societies due to their inherent cultural proclivity for internal rather than external transactions (Steenkamp and Geyskens, 2012).

Another aspect of high power cultures is that they view experts as ultimate authority whose teachings and even opinions are not challenged. Moreover, lower-level organizational members are not expected to seek knowledge actively through their experiences or find their own intellectual paths (Jaju, Kwak, & Zinkhan, 2002: 52). While it is acceptable to seek feedback from peers, the ability to ask authority figures for additional explanations and support is limited (Barmeyer, 2000). Based on these arguments, scholars have proposed that in high power cultures individuals have a preference for abstract conceptualization “when it comes to ‘grasping’ of information (Holtbrugge & Mohr, 2010: 625). Furthermore, high power distance cultures may discourage experimentation in order to “maintain the competency differential between teacher and students,” and therefore, exhibit preference for reflective observation rather than active information ((Holtbrugge & Mohr, 2010: 626). Such preference for high levels of abstract conceptualization and reflective observation is categorized as the assimilator learning style (Kolb, 1976; 1981a; 1981b).

Whereas high power distance cultures view inequality as part of the natural order, and openly favor certain types of customers (those with greater resources or personal connections), low power distance cultures seek to level the playing field and refuse to provide discounts or extra services to “the highest income or most prestigious segment” (Nakata & Sivakumar, 2001). Lower power distance cultures commonly employ flatter organizational structures maximizing information exchange which facilitates knowledge acquisition, assimilation, transformation and exploitation (Greve et al., 2009). Other authors, however, suggest that both

high power distance and low power distance have their advantages in the area of new product development (Nakata & Sivakumar, 1996; 2001). Although low power distance cultures are more conducive to generation and proliferation of new ideas, high power distance cultures excel when control is actually needed in order to better coordinate the efforts of dispersed and remote actors and create new products “on a timely and cost-effective basis” (Nakata & Sivakumar, 1996: 64) to enhance performance.

Since organizations operating in high power distance cultures are more effective in controlling multiple and disconnected actors, they may enjoy benefits in the area of socialization. Using explicit rules, elaborate procedures and unrelenting monitoring and improvement, high power distance cultures may have the power to insist that all the procedures are performed as needed and expediently punish those that choose to deviate from the established practices. As a result, socialization of new members may be highly monitored and controlled so that any failures are immediately noticed and corrected. Furthermore, while high power distance cultures put restrictions on vertical communication, they simultaneously encourage horizontal or lateral communication. People equally subjugated to the same relentless authority may develop a sense of camaraderie and support one another trying to make sure that new organizational members are effectively socialized so that they could be relied upon and provide support in case of unexpected emergency.

Similarly, high power distant cultures may enjoy advantages in the area of combination. Centralized control allows effectively dealing with interorganizational barriers and politics. Cross-functional teams and divisions participating in common research endeavors may be rewarded on an equal basis whereas a lack of cooperation could be severely punished. Furthermore, high power distant cultures led by autocratic leaders may have greater latitude in terms of resource allocation and be able to concentrate such resources on the critical areas and demand intense effort from subordinates sometimes bordering on self-sacrifice. Such cultures may also foster a sense of dedication on the part of employees feeling loyalty toward their organization. Therefore:

Proposition 4a: The higher the level of cultural power distance, the greater will be the ability of champions to build on socialization capability and use mentoring as the key championing strategy.

Proposition 4b: The higher the level of cultural power distance, the greater will be the ability of champions to build on combination capability and use collaboration as the key championing strategy.

Conversely, low power distance cultures may develop advantages in the area of externalization and internalization. Both conversion of tacit to explicit knowledge (externalization) and explicit to tacit knowledge (internalization) presume a degree of creative freedom. The capability of externalization is difficult to develop when one is afraid to speak out of turn since powers that be are expected to speak out first. When authority figures are at a loss, they may be afraid to show their ignorance and/or confusion and prefer to keep quiet. This dooms their subordinates to silence and prevents the development of the capability for externalization due to fear of retaliation from authority figures that are likely to see their subordinates' attempts to exercise their creative freedom as blasphemy and encroachment on their turf. Furthermore, highly centralized and formalized methods of indoctrination common in high power distant cultures may prevent effective knowledge internalization as employees can be afraid of posing questions to their supervisors and can only request information from their peers that may not have sufficient understanding of the subject matter due to limited education and expertise (Holtbrugge & Mohr, 2010). Conversely, low power distant cultures may enjoy the luxury of using vertical and horizontal communication, interaction and cooperation. Knowledge, therefore, may be generated in different parts of the company and effectively shared through formal as well as informal communication channels that foster both the capability for

externalization due to a lack of fear and unnecessary inhibitions and the capability for internalization as a result of experimentation, numerous forms of assistance and hands-on learning. Therefore:

Proposition 4c: The lower the level of cultural power distance, the greater will be the ability of champions to build on externalization capability and use leadership as the key championing strategy.

Proposition 4d: The lower the level of cultural power distance, the greater will be the ability of champions to build on internalization capability and use adaptation as the key championing strategy.

Table 4 summarizes the predicted effects of masculinity vs. femininity on the efficacy of knowledge conversion.

Table 4. The impact of high power distance vs. low power on knowledge conversion capabilities in organizations.

| Knowledge Conversion/Championing Strategy | High power distance (hierarchies) | Low power distance (markets) |
|---|-----------------------------------|------------------------------|
| Socialization (Mentoring Strategy)        | X                                 |                              |
| Internalization (Adaptation Strategy)     |                                   | X                            |
| Externalization (Leadership Strategy)     |                                   | X                            |
| Combination (Collaboration Strategy)      | X                                 |                              |

#### *Long-Term Vs. Short-Term Orientation and the Efficacy of Knowledge Conversion*

Long-term vs. short-term orientation represents the fifth cultural dimension that was absent from Hofstede's (1980) original study but emerged in subsequent research centered on Asian countries (Bond et al., 1987). Originally described as the Confucian Dynamic, the fifth dimension differentiates between the two aspects of temporal orientation: (1) positive, future oriented and (2) negative, past oriented. Hofstede (1991) has respectively renamed these two poles long-term and short-term orientation. Long-term orientation is represented by the values of persistence (perseverance), ordering relationships by status and observing this order, thrift, and having a sense of shame (Hofstede, 1991: 165). Short-term orientation is represented by the values of personal steadiness and stability, protecting 'face,' respect for tradition, reciprocation of greetings, favors, and gifts (Hofstede, 1991: 166). Hofstede's use of the terms long-term vs. short-term orientation is somewhat misleading. This is why many authors prefer referring to the original concept of the positive pole of Confucian dynamic renamed by Hofstede (1991; 1994) long-term orientation and its negative pole renamed by Hofstede (1991; 1994) short-term orientation.

The two poles stand for the two opposite aspects of long-term orientation, dynamic and static (Hofstede, 1991). At the same time, short-term orientation as such is represented by a different set of values such as freedom, rights, achievement, and thinking for oneself as well as focus on near-term results and their effect on the bottom line (Hofstede & Minkov, 2010). Furthermore, whereas long-term orientation hinges on the idea of "virtue," short-term orientation hinges on the idea of truth; cultures with a long-term orientation apply a synthetic method of intellectual inquiry whereas cultures with a short-term orientation apply an analytical method of intellectual inquiry (Hofstede & Minkov, 2010). Short-term orientation has been associated with a focus on immediate financial gains and fragmented decision making (Nakata & Sivakumar, 2001). Conversely, long-term orientation encourages patience, relationship building and self-sacrifice.

Long-term orientation has been associated with incremental innovation, investing in the infrastructure including mutually supportive relationships with suppliers and buyers, sacrificing immediate gains for long-term benefits, etc. Curiously, it is short-term rather than long-term orientation that is associated with

escalation of commitment since short-term oriented managers keep investing resources into stillborn projects as they hope to turn them around in the near future and in so doing save face (Khanin & Turel, 2012). Conversely, long-term oriented managers may be willing to forego unsuccessful projects since they understand that sunk costs need to be disregarded in the interests of future advancement (Nakata & Sivakumar, 1996). While long-term orientation valorizes creating successful strategy, short-term orientation emphasizes satisfying customers by undertaking tactical activities (Nakata & Sivakumar, 2001).

While long-term orientation contributes to new product development in the initiation and implementation stages alike, long-term orientation impedes new product development at both stages (Nakata & Sivakumar, 1996). Scholars have also argued that long-term rather than short-term orientation is positively related to knowledge acquisition, assimilation, transformation and exploitation (Greve et al., 2009).

In our view, prior research has somewhat exaggerated the inherent disadvantages of short-term orientation. There are certainly business situations that call for short-term orientation. For instance, some business transactions can be short-term as investors seek to get in and out of commitments quickly. This is the nature of arbitrage: taking advantage of momentous gains arising due to market inefficiencies or market failure. There is often a short window of opportunity in business activities. Actors that are faster, more resolute and prepared can reap substantial rewards by getting in when the time is right as well as being able to quit while they are ahead. On these grounds, we propose that short-term oriented cultures may have certain advantages in both knowledge internalization and externalization. This is because short-term orientation fosters the ability to learn fast, quickly react to contingencies and be able to quit right away. High velocity, high risk and highly dynamic and complex environments call for the development of the capability to convert explicit into tacit knowledge very effectively. Once information becomes available it is only possible to utilize it successfully once it is internalized. Short-term orientation could flourish in such fast-moving, dangerously unpredictable but highly profitable environments (when the cards are played right) but it can only lead to success once it is based on specific capabilities such as the capability to expediently internalize explicit information.

In addition, we hypothesize that short-term orientation may be conducive to developing the capability for externalization. Business cultures focused on earning short-term profits need to develop good sales skills in order to be able to convince a customer in their value proposition. To be successful, short-term oriented actors must be very convincing and able to develop a compelling argument in a very short period of time or adjust an argument in response to new information (or prospect's reactions) almost immediately. This necessity to be very good at sales and adept at change places a premium on externalization, i.e. converting one's tacit knowledge into explicit knowledge that could be fed to a buyer or seller to gain an immediate advantage and close the deal. Short-term orientation raises the level of risk and requires survival skills. The capabilities for both internalization and externalization are critical for development of such aptitudes. Therefore:

Proposition 5a: The stronger cultural short-term orientation, the greater will be the ability of champions to build on externalization capability and use leadership as the key championing strategy.

Proposition 5b: The stronger cultural short-term orientation, the greater will be the ability of champions to build on internalization capability and use adaptation as the key championing strategy.

Conversely, we expect long-term orientation to be associated with socialization and combination. Short-term oriented organizations rarely have the commitment and resources to educate and train new organizational members and create the conditions for their personal and professional growth. Instead, they may use the

scorched earth policy continually recruiting new members. In contrast, long-term oriented organizations are focused on successful socialization of their new members and dedicate substantial resources to the attainment of this objective. Furthermore, short-term oriented organizations may not have the time or desire to synthesize knowledge. Instead, they prefer to apply the existing formulas expediently and whatever works here and now instead of experimenting with new ways of doing things at the cross-section of organizational knowledge by way of forming cross-functional teams or using other channels of communication. Therefore:

Proposition 5a: The stronger cultural long-term orientation, the greater will be the ability of champions to build on socialization capability and use mentoring as the key championing strategy.

Proposition 4d: The stronger cultural short-term orientation, the higher will be the ability of organizational members to use internalization during the innovative process and be effective as learners.

Proposition 5a: The stronger cultural long-term orientation, the greater will be the ability of champions to build on combination capability and use collaboration as the key championing strategy.

Table 5 summarizes the effects of masculinity vs. femininity on the efficacy of knowledge conversion. Table 6 summarizes the effect of all cultural dimensions on knowledge conversion.

Table 5. The impact of long-term vs. short-term orientation on knowledge conversion capabilities in organizations.

| Knowledge Conversion/Championing Strategy | Short-term orientation | Long-term orientation |
|---|------------------------|-----------------------|
| Socialization (Mentoring Strategy)        |                        | X                     |
| Internalization (Adaptation Strategy)     | X                      |                       |
| Externalization (Leadership Strategy)     | X                      |                       |
| Combination (Collaboration Strategy)      |                        | X                     |

Table 6. Summary table

|                        | Socialization | Externalization | Internalization | Combination |
|------------------------|---------------|-----------------|-----------------|-------------|
| Individualism          |               | X               | X               |             |
| Collectivism           | X             |                 |                 | X           |
| Masculinity            |               |                 | X               | X           |
| Femininity             | X             | X               |                 |             |
| Uncertainty acceptance |               | X               |                 | X           |
| Uncertainty avoidance  | X             |                 | X               |             |
| High power distance    | X             |                 |                 | X           |
| Low power distance     |               | X               | X               |             |
| Short-term orientation |               | X               | X               |             |
| Long term orientation  | X             |                 |                 | X           |

## Discussion

Since the 1990s, a limited number of studies have examined the effects of culture dimensions on innovation championing strategies (Shane, 1992; 1993; 1994; 1995; Shane et al., 1995), new product development (Nakata & Sivakumar, 1996; 2001), knowledge capabilities (Greve et al., 2009) and knowledge transfer (Zhang & Begley, 2011). In this paper, we have investigated the effect of culture dimensions on the four principal activities related to knowledge conversion: socialization, externalization, internalization and

combination (Nonaka, 1994; Nonaka et al., 2000). Furthermore, we have explored the connection between the capabilities embedded in respective knowledge conversion activities and the four championing strategies focused on (1) assisting new member immersion into innovative teams and organizations (the strategy of mentoring); (2) generating broad-based organizational support for innovative projects (the strategy of leadership); (3) expediently adjusting to the changing environment by creating new approaches toward innovation (the strategy of adaptation); and (4) interlinking different parts of an organization to create new combinations of knowledge resources (the strategy of collaboration).

The contributions of this study to the literature on innovation management in various cultural environments are as follows. First, we have demonstrated that cultural dimensions may substantially affect organizational capabilities related to conversion of knowledge. In so doing this study helps to forge an important connection between Hofstede's (1980; 1985; 2001) theory of culture dimensions and Nonaka's (1994) theory of knowledge conversion. Although prior scholars have already examined the effect of culture dimensions on various facets of absorption capacity (Greve et al., 2009), no study to the best of our knowledge has investigated so far how knowledge conversion can be affected by culture dimensions. This subject is important for innovation management that can be pursued more effectively if it is attuned to the cultural-institutional environment. For instance, as we have shown, individualistic cultures may be most effective in the domains of externalization and internalization and less effective in the domains of socialization and combination. Conversely, collectivistic cultures may be more effective in performing socialization and combination activities and less effective in performing externalization and internalization activities as part of knowledge conversion. Organizations understanding these particular limitations stemming from their cultural environment may seek to develop competencies in the domains that traditionally represent their areas of weakness. Thus, organizations from individualistic cultures need to examine how they can strengthen their ability to socialize new members and in so doing increase the number of innovation champions as well as how to strengthen their ability to combine knowledge inputs from different parts of an organization.

The second contribution our study consists of further developing the concept of championing strategy. Prior research has elaborated on such championing strategies as making personal appeals to organizational stakeholders to gather cross-functional support or seeking to include organizational members and other stakeholders into the innovation decision making process (Shane, 1992; 1994; 1995; Shane et al., 1995). In addition to these previously examined politically oriented championing strategies we were able to show the importance of cognitive championing strategies related to (1) leadership, i.e. articulating champions' inner thoughts and intuitions to facilitate their understanding by other organizational members in order to turn them into followers and believers; (2) adaptation, i.e. adjusting the direction of innovative teams in reaction to environmental changes in order to take advantage of emerging opportunities and avoid new threats; (3) collaboration, i.e. overcoming interorganizational barriers to innovation by synergistically combining the stocks of knowledge located throughout an organization; and (4) mentoring, i.e. recruiting new organizational members and quickly getting them up to speed in order to strengthen the human and social capital of innovative teams, organizational units, and firms.

The third contribution of our study stems from its new and advanced interpretation of the effect of culture dimensions on knowledge management processes. Previous research has emphasized that opposite dimensions of culture may be more effective either at the initiation or implementation stage of new product development (Nakata & Sivakumar, 1996; 2001) as well as may have a different effect on knowledge acquisition, assimilation, transformation and exploitation (Greve et al., 2009). However, these prior studies have interpreted certain dimensions of culture such as a short-term orientation as being solely negative. In contrast, we have developed a different conceptual approach toward short-term orientation as having a

positive effect on particular types of knowledge conversion such as externalization and internalization. Short-term orientation can be conducive, in our opinion, to conducting a number of highly profitable investment activities that can be defined generically as the art of arbitrage. In addition, closing a deal may require specific strengths in knowledge conversion such as the ability to externalize one's positive emotions about the product and quickly react to buyer's preferences. Thus, that it is important to approach all culture dimensions in a balanced manner and seek to comprehend the particular advantages and disadvantages of each dimension of culture.

### Future Directions

We hope that scholars will be able to put our propositions to test and verify empirically the hypothesized advantages and disadvantages exhibited by different cultures in terms of knowledge conversion capabilities. Such studies could especially benefit from including both business-related organizations (profit and nonprofit) and other types of organizations, for instance, educational and/or governmental agencies. Furthermore, it may be important to focus more closely on the range of championing strategies favored in particular cultural locations. Finally, it would be advisable to contrast political championing strategies proposed in prior research such as seeking organizational support and cognitive strategies suggested in this study such as leadership understood as articulation of new ideas or mentoring understood as follower education.

### References

- Barkema, H. G., & Vermeulen, G. A. M. (1997). What differences in the cultural backgrounds of partners are detrimental for international joint ventures? *Journal of International Business Studies*, 28, 845–864.
- Cohen, W., & Levinthal, D. (1990). Absorptive Capacity: A New Perspective on Learning and Innovation. *Administrative Science Quarterly*, 35(1), 128-152.
- Doney, P., Cannon, J., & Mullen, M. (1998). Understanding the influence of national culture on the development of trust. *Academy of Management Review*, 23, 601-620.
- Greve, G., Engelen, A., Brettel, M. 2009. An integrative view on absorptive capacity and national culture. *International Journal of Business Studies*, 17 (1), 19-43.
- Hofstede, G., 1980. Culture's consequences: international differences in work-related values. Beverly Hills, CA: Sage.
- Hofstede, G., 1991. Cultures and organizations: software of the mind. London: McGraw-Hill.
- Hofstede, G. (1994). Management scientists are human. *Management Science*, 40, 4–13.
- Hofstede, G. (2001). Culture's consequences: comparing values, behaviors, institutions, and organizations across nations. Thousand Oaks: Sage Publications.
- Hofstede, G., & Bond, M. H. (1988). The Confucius connection: from cultural roots to economic growth. *Organizational Dynamics*, 16, 5–21.
- Nakata, C., & Sivakumar, K. (1996). National Culture and New Product Development: An Integrative Review. *Journal of Marketing*, 60(1), 61-72.
- Nakata, C., & Sivakumar, K. (2001). Instituting the Marketing Concept in a Multinational Setting: The Role of National Culture. *Journal of the Academy of Marketing Science*, 29(3), 255-275.
- Nonaka, I. and H. Takeuchi (1995), *The Knowledge Creating Company: How Japanese Companies Create the Dynamics of Innovation*. Oxford University Press, New York.
- Nonaka I. 1994. A dynamic theory of organizational knowledge creation. *Organization Science* 5(1): 14–37.
- Nonaka I, Konno N. 1998. The concept of 'ba': building a foundation for knowledge Creation. *California Management Review* 40(3): 40–55.
- Nonaka I, Toyama, R. 2005. The theory of the knowledge creating firm: subjectivity, objectivity and synthesis. *Industrial and Corporate Change* 14(3): 419–436.

- Shane, S. (1992). Why Do Some Societies Invent More than Others? *Journal of Business Venturing*, 7(1), 29-46.
- Shane, S. (1993). Cultural Influences on National Rates of Innovation. *Journal of Business Venturing*, 8(3), 59-73.
- Shane, S. (1994a). Cultural Values and the Championing Process. *Entrepreneurship Theory & Practice*, 18(4), 25-41.
- Shane, S. (1994b). The Effect of National Culture on the Choice between Licensing and Direct Foreign Investment. *Strategic Management Journal*, 15(8), 627-642.
- Zahra, S., & George, G. (2002). Absorptive Capacity: A Review, Reconceptualization, and Extension. *Academy of Management Review*, 27(2), 185- 203.
- Zahra, S., & Hayton, J. (2008). The Effect of International Venturing on Firm Performance: The moderating Influence of Absorptive Capacity. *Journal of Business Venturing*, 23, 195-220.

# **Developing Social Media Promotional Strategies in the Casual Dining Restaurant Industry: A Case Analysis of Montegro's Italian Grille**

Yun-Oh Whang, The University of Tampa  
Dean Koutroumanis, The University of Tampa  
Amy Brownlee, The University of Tampa

## **Abstract**

Dan and Jay Montegro along with their business partner, Joe Zito, had owned Montegro's Italian Grille for 17 years. Montegro's was an award winning casual dining Italian restaurant, located in a very busy business district. Since the beginning of the economic recession the restaurant had experienced a significant decrease in revenues. The owners had been searching for new innovative promotional strategies in order to boost sales. Groupon, the industry leader in social media marketing, had been in contact with the owners on several occasions stating that their promotional campaign is just what Montegro's needed to spark sales. The focus of the case decision is on making the strategic, promotional decision whether the small business should pursue the Groupon promotion and evaluate the economic consequences of the decision. The case is appropriate for both undergraduate and graduate level courses in Small Business Management, Entrepreneurship, Promotions, Marketing Research and Hospitality Marketing. The situation described in the case is based on actual events that occurred. All names of the parties involved (including the restaurant name) have been altered to protect their identity.

## **Introduction**

May 28<sup>th</sup> 2012 marked a milestone for Montegro's Italian Grille. Montegro's opened its doors on Memorial Day, 1995 and was now celebrating its 17 year anniversary, quite an accomplishment for any independently-owned business. The Italian eatery was owned and operated by the Montegro brothers, Dan and Jay, and a long-time friend, Joe Zito. It had been a staple in the St. Petersburg, FL business district of Feather Cove for almost two decades, with its pasta chosen as "Best in the Bay" by Tampa Bay Magazine from 1996 to present.

However, on this beautiful sunny day in May 2012, Dan looked at the empty tables in his restaurant during the lunch hours, and remembered when it used to be the busiest time of the day with each table turning over more than once. The impact of the "Great Recession" was clearly present at Montegro's even though he could see the light at end of the tunnel. Dan thought about the meeting he had recently with a marketing representative from a leader in social media marketing, Groupon. Montegro and his co-owners had been pondering the question of how to inject some energy to his business.

## *Background*

Montegro's was located in a highly regarded business district where many large corporations were located including the international headquarters of Raymond James Financial and Home Shopping Network. Montegro's served the local business community during lunch hours offering quality food at affordable prices with a classy atmosphere. In addition to the local business professionals, the core target market also included business travelers staying in the area. There were 22 hotels within a 4-mile stretch of the restaurant's location, and hotel guests often visited Montegro's for dinner and a glass of wine after a hard day's work away from home. Another core target segment for dinner was the retirees in the Feather Cove neighborhood. It was an affluent subdivision with primarily retired couples who enjoyed the comfortable and personalized service at Montegro's. Montegro's had a split floor plan with a bar area on one side. The other side provided a quiet and relaxing atmosphere where retirees and couples could have a private dinner.

### *Montegro's Concept*

Montegro's was in the casual dining segment of the restaurant industry. The establishment offered a wide selection of menu items ranging from Italian classics such as lasagna and chicken parmigiana to more upscale offerings such as gorgonzola crusted filet mignon with Portobello mushroom. The menu was extensive offering 60 items including appetizers, salads, entrees and desserts. They offered more menu items than the average of their five closest competitors.

### *The Restaurant Industry – Overview*

According to the National Restaurant Association (NRA), the U.S. restaurant industry encompassed approximately 945,000 restaurants and accounted for 49 percent of the country's food dollar (National Restaurant Association, 2010) in 2010. The restaurant industry was fragmented and made up of many units ranging from full service to quick service restaurants. The industry was comprised of many independently owned and operated restaurants, which remain the backbone of the industry today. National and regional chain restaurants were an additional segment which had grown in both scope and popularity in the last 20 years.

The restaurant industry can be broken down into five categories: quick service (fast food), fast casual, family dining, casual dining, and fine dining (see Exhibit 1 for the characteristics of each category). Food quality of the different segments was based on a range of factors from the quality of the raw ingredients to the skill in preparation of the food products. Family dining restaurants tended to use more standardized and generic-type food products, which have lower raw costs. This resulted in the restaurants being able to offer their customers lower-priced menu items. Casual dining restaurants purchased a higher quality and branded raw food products and fine dining restaurants used the finest, brand name and quality products available in their food preparations.

The casual dining restaurant segment included establishments primarily engaged in providing food services to patrons who ordered and were served while seated (i.e. waiter/waitress service) and paid after eating. These establishments provided this level service to patrons in combination with selling alcoholic beverages, providing carry out services, or presenting live nontheatrical entertainment (NAICS code 722110).

Montegro's was a typical casual dining restaurant. Its main competitors within an 8-mile radius included Applebee's, Beef 'O' Brady's, Carraba's Italian Grille, and Outback Steakhouse. Carraba's was the only other Italian cuisine restaurants in the immediate area. Applebee's and Outback Steakhouse would be considered direct competitors with atmospheres similar to Montegro's.

Exhibit 1. Restaurant Categories

| Category                  | Table Service | Additional Service | Check per Person | Note  | Examples  |
|---------------------------|---------------|--------------------|------------------|---|---|
| Quick Service (Fast Food) | No            | No                 | under \$6.00     | Low quality, convenient, and high value                   | McDonald's<br>Burger King<br>Wendy's<br>Domino's Pizza        |
| Fast Casual               | No            | No                 | \$5.00 - \$10.00 | Mostly innovative ethnic food<br>Fastest growing category | Panera Bread Co.<br>Pappas Market Café<br>Moe's<br>Baja Fresh |
| Family Dining             | Yes           | Yes                | \$8.00 - \$14.00 | Mostly independent<br>Concentrated in the Northeast       | Perkins<br>Denny's<br>Ryan's Family Steakhouse                |

|               |     |     |                   |                              |   |
|---------------|-----|-----|-------------------|------------------------------|---|
| Casual Dining | Yes | Yes | \$15.00 - \$24.00 | High quality, yet affordable | Outback Steakhouse<br>Olive Garden<br>Red Lobster<br>Chili's<br>Applebee's<br>Wolfgang Puck's |
| Fine Dining   | Yes | Yes | over \$25.00      | Tablecloth establishment     | Spaggo<br>Emeril's<br>Café Ponte<br>Salt Rock Grille  |

### *Montegro's Owners*

The Montegro brothers had a long history in the restaurant business; one could say they were “born” into the business. Their family owned and operated multiple restaurants in the New Haven, CT area and their flagship restaurant was located in the heart of Yale University in New Haven. It was your typical college hangout serving homemade Italian favorites from chicken parmesan to Italian subs to pizza. Dan and Jay started working at the restaurant as soon as they were able to reach the counter. As they became teenagers, they were more and more involved with the daily operations and management of the business. When the brothers finished college they both went to work for a national restaurant chain where they fine-tuned their management skills and continued to learn about the restaurant business at a professional level versus the “mom and pop” management style they grew up with. The brothers met Joe Zito while they were working at the national chain and found they all shared the same vision; to one day own and operate their own casual dining, full service Italian restaurant.

### *The “Great Recession” Hits Montegro's*

The “Great Recession” had a profound negative effect on the restaurant industry, causing a record number of closures. According to NPD (global research firm), over 4,000 (based on US figures only) restaurants closed for business in a one year period, April 2008 to March 2009 (Lockyer, 2009). As the restaurant industry continued to struggle through the turmoil, the complexities of restaurant operations were magnified in scope and context. Analysts from Standard and Poor's classified 2009 as “the most challenging operating environment the modern restaurant has ever faced” (Basham, 2010).

As the recession began impacting the country in 2008, the core target markets of Montegro's also suffered. Local business professionals who used to pack Montegro's during lunch time started to either switch to cheaper alternatives or skip lunch altogether. The definition of “power lunch” also changed from one hour to 30 minutes, which made the per person tab shrink (Dizik, 2012). Montegro's was not able to escape the impact of declining numbers of business travelers who used to be the main target market for dinner business. Banquets and catering, which both benefited the restaurant in the strong economy, took a hit as well. Although the sales had stabilized in 2011, the volume was down by 17% (\$317,000) in 2010 compared to the pre-recession period (2007) (see Exhibit 2 for Montegro's financial performance from 2005 to 2011). As a result, idle tables were common during the lunch time when the dining area used to be packed and on a wait. The dinner business, including both food and wine sales, had also dramatically declined. Instead of trying to weather the economic downturn, the three partners of Montegro's saw the changing business environment as an opportunity to make strategic changes. Before the recession, Montegro's was always short on tables during lunch hours and had enough food and wine sales during dinner time, so there was little need for a strategic change. However, with the paradigm shift in the “power lunch” and in business travel, the owners thought it would be a great opportunity to redefine Montegro's business and target markets. These changes could help the restaurant enjoy sustainable growth in the future without relying solely on the local business professionals for lunch and business travelers for dinner.

Exhibit 2. Summary of Financial Performance of Montegro's (2005 – 2011)

|                         | 2005               | 2007               | 2009               | 2011               |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
| Sales                   | \$2,100,000        | \$2,190,500        | \$1,873,500        | \$1,839,500        |
| Food Cost               | \$ 526,200         | \$ 541,050         | \$ 512,254         | \$ 513,241         |
| Total Cost of l/b/w*    | \$ 73,943          | \$ 78,541          | \$ 68,410          | \$ 67,584          |
| <b>GROSS PROFIT</b>     | <b>\$1,499,857</b> | <b>\$1,570,909</b> | <b>\$1,292,836</b> | <b>\$1,258,675</b> |
| Crew Labor              | \$ 428,000         | \$ 452,100         | \$ 429,521         | \$ 392,141         |
| Bonus                   | \$ 5,850           | \$ 6,250           | \$ -               | \$ -               |
| Management Fee          | \$ 125,000         | \$ 125,000         | \$ 100,000         | \$ 100,000         |
| Total Personnel         | \$ 558,850         | \$ 583,350         | \$ 529,521         | \$ 492,141         |
| Rent                    | \$ 132,000         | \$ 132,000         | \$ 132,000         | \$ 132,000         |
| Advertising             | \$ 12,000          | \$ 12,000          | \$ 18,000          | \$ 15,000          |
| Other Expenses          | \$ 643,500         | \$ 685,400         | \$ 615,900         | \$ 598,700         |
| Total Operating Expense | \$1,346,350        | \$1,412,750        | \$1,295,421        | \$1,237,841        |
| <b>NET INCOME</b>       | <b>\$ 153,507</b>  | <b>\$ 158,159</b>  | <b>\$ (2,585)</b>  | <b>\$ 20,834</b>   |

\*l/b/w = Liquor / Beer / Wine Cost

As a part of the effort to rethink the overall strategy of Montegro's, the owners had a meeting with a Groupon representative to discuss the opportunity to draw more customers to Montegro's by running a Groupon promotion online. Knowing that social media was becoming a hot marketing tool in the restaurant industry, Dan, Jay, and Joe, the owners of Montegro's Italian Grille, were still not sure after the meeting if a Groupon promotion campaign would be a beneficial strategy in the long run. It was predictable that a Groupon promotion would bring in more customers. However, would it just boost the sales in the short term, but hurt the long term sales? Would it change the intimate atmosphere of Montegro's, which had been strength in bringing back regular, repeat customers? The owners were not quite sure, but with the decrease in sales and the business barely breaking even, they thought it was worth considering. Dan, Jay, and Joe decided to go back to the drawing board to understand how social media such as Groupon can be a part of their long term promotion strategy.

*The Market and Consumer Decision Making Process*

According to a 2008 Nielsen Global Online Customer Survey, 33% of consumers around the world selected a restaurant primarily based on the type of cuisine it offered. Another important factor determining restaurant selection was price and value (21% of respondents). The remaining criteria items were convenient location close to home, work or school (10%), having good hygiene standards (8%), and offering healthy food choices received (6%) (Banks, 2008).

When the above criteria were met, intangibles then became an important part of the decision making process. This was where the ambiance and décor become critical factors in choosing the final destination (Auty, 1992).

Each generation of the U.S. population also had distinct needs and wants when it came to restaurants. Understanding the expectations of the generations would help restaurateurs make more effective strategic decisions.

*Baby Boomers* - Baby Boomers were born between 1945 and 1964. Baby Boomers made up about 25% of the U.S. population. They had the highest levels of disposable income and the early group of the boomer generation was heading into retirement. Boomers spent more per person at restaurants than other age groups. They demanded good customer service. They liked being recognized and wanted to be taken care of by experienced servers. Boomers preferred comfort foods that had been updated to reflect a healthy lifestyle. Boomers liked value for the dollars they spent which drove them towards the casual dining segment (Rowe, 2008).

*Gen Xers* - Gen Xers were born between 1965 and 1980. Seventy-one percent of Gen Xers had children under the age of 18 (Erickson, 2009). Gen Xers enjoyed spending time with their children, tended to bring them on vacations as well as out to dining establishments. Quality of life was of high importance to this demographic. Most were well educated (college/graduate school), and more technologically capable than previous generations. They were hard-working, pragmatic, and had a strong aversion to formality. Restaurants that offered a casual dress code, a kid-friendly atmosphere, and friendly service met the needs of this generation (Rowe, 2008).

*Millennials* - Also known as Gen Y were born in 1980 or later and numbered 75 million in the U.S. They were the most digital of the generations. They preferred bright, fun, energetic environments where they did not need to dress up. They ate out twice as often as boomers, often on impulse, but had less money to spend. Eating out was an essential part of their lifestyle. Restaurants offered the Millennials a wide variety of appetizers, tapas-type meals and combo platters of wide-ranging ethnic flavors. Restaurants that had extended hours and were flexible and accommodating drew this demographic group (Rowe, 2008).

Based on the survey of Montegro’s customers, the restaurant had a wide range of customers. About 64% of the customers were married, and 45% of them were aged 50 or older with 52% making \$80,000 or more annually. The overall profile of the customers fit the baby boomer segment described above, but Montegro’s also attracted younger customers with less income as shown in Exhibits 3 and 4.

Exhibit 3. Age Distribution of Montegro’s Customers (%)

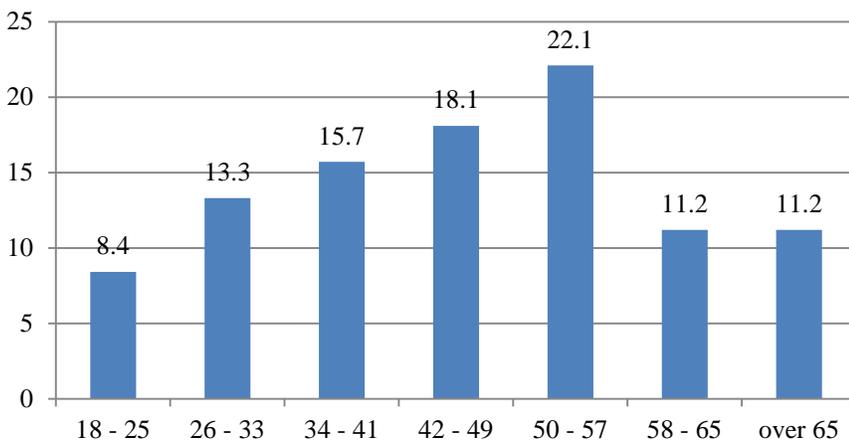
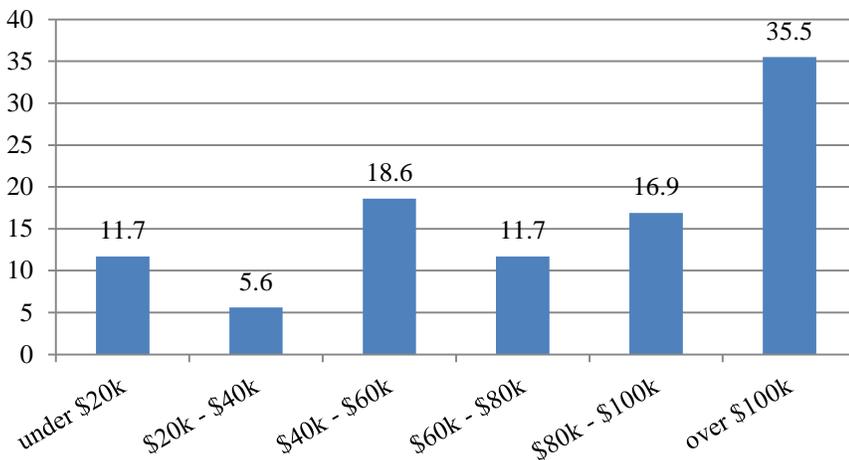


Exhibit 4. Income Distribution of Montegro's Customers (%)



### *Groupon Proposal*

Groupon was an online coupon site where consumers can purchase a product or service at a discounted price. It started in Chicago in 2008 and quickly expanded worldwide serving 500 markets in 44 countries by 2011. In 2010, its monthly revenues in the US grew from \$11 million to \$89 million, and the worldwide revenue of Groupon was estimated to be over \$3 billion in 2011 (Shonfeld 2011). It had truly become a retail phenomenon with many businesses rushing to get on the bandwagon.

The owners of Montegro's had been paying attention to the new Groupon phenomenon. All three of them were technology-savvy and had purchased a few deals through Groupon as consumers themselves. However, they never used Groupon as a promotion tool for their restaurant mainly because the business consistently enjoyed growth and success without having to run any special promotions. However, times had changed. As stated earlier, the recession caused a significant drop in customer visits, and Montegro's owners recognized the potential positive impact of social media such as Groupon.

It was rather a shock when Dan did some research on using Groupon as a promotional tool. It had a hefty cost. The way Groupon deals were structured, the business that runs the promotion was bound to take a huge hit on its profit. For example, a restaurant would offer \$30 worth of food and beverages to the Groupon customer for \$15 in total cost. Out of that \$15 collected, the restaurant would typically split it 50/50 with Groupon. In other words, the restaurant would collect \$7.50 and Groupon would keep \$7.50. The money collected by the restaurant would typically cover the cost of the food and beverage at a break even.

Another concern Dan had was the characteristics of the Groupon users. Based on his experience, consumers who follow deals always follow deals. Dan labeled them 'coupon hoppers' who chose a restaurant based on which had the best deal at the moment. Considering the core target markets of Montegro's—business professionals in the surrounding business district for lunch, business travelers from the nearby hotels and retirees from the Feather Cove neighborhood for dinner—Montegro's had always put more emphasis on the quality of food and repeat business rather than the price.

With the profitability issue and price sensitivity of the Groupon users, Dan almost decided not to run a Groupon promotion. However, in April 2012, he met the owner of the Arigato Japanese Steakhouse in the Tampa Bay area at a local business networking event. She told Dan about her experience with Groupon, which was more than extraordinary. She ended up selling more than one thousand coupons; about 70% of purchasers redeemed the coupons at the restaurant. She found that many of them had never heard of Arigato Japanese Steakhouse before, and the Groupon users spent more than average once they were at the

restaurant. She also shared some interesting statistical information she received from Groupon. For every ten Groupon customers five returned to the merchant again; four would have never considered the merchant if it wasn't for the Groupon; two joined a repeat rewards program if the business offered one. Groupon merchants additionally add that out of 10 customers, 9 actually spent more than the face value of the coupon; eight merchants said that the Groupon reactivated lapsed customers; and seven stated that Groupon enhanced the reputation of the business (Groupon, Independent Study, 2012). Based on her experience and this information, she strongly recommended running a Groupon promotion to Dan, and he had to go back to Jay and Joe and resurrect the question of a Groupon campaign.

### *Social Media Survey*

To study the potential benefit of a Groupon promotion, Dan, Jay, and Joe decided to run a quick survey to get a better picture of the role Groupon would play in Montegro's marketing. The customers who visited Montegro's Italian Grille over a three-month period were presented with a short questionnaire that asked them about their use of social media.

The survey found that only 21.6% of the current customers used social media in interacting/following/communicating with restaurants, while 39.3% planned to do so in the future. When asked to rank the importance of various social media, Facebook ranked the highest with an average rank of 1.83, while Groupon and Twitter were distant second tier media outlets with average ranks of 3.29 and 3.73, respectively. Foursquare and MySpace followed with ranks of 4.30 and 4.38, respectively.

In terms of the characteristics of the customers who showed interest in using social media in restaurant choice, leisure customers (40.3%) were more interested in social media than business customers (30.5%), and as expected part-time and full-time residents showed much stronger interest (44.1% and 64.3%, respectively) than business travelers and vacationers (18.2% and 28.6%, respectively).

When cross-tabulated with age and income, interest in social media in restaurant choice showed puzzling patterns. Exhibit 5 shows the percentage of customers interested in social media in each age bracket, and as expected, younger customers were more interested in using social media when choosing a restaurant. However, it was a surprise that almost one half of the customers aged between 58 and 65 were also interested in social media for restaurant choice. Income showed a similar pattern with two peaks in the interest level: \$20,000 – \$40,000 and over \$100,000 (Exhibit 6). In other words, social media were not exclusively used by young, lower income customers but older, affluent customers were also getting on the bandwagon.

Exhibit 5. Customers Interested in Social Media in Each Age Bracket (%)

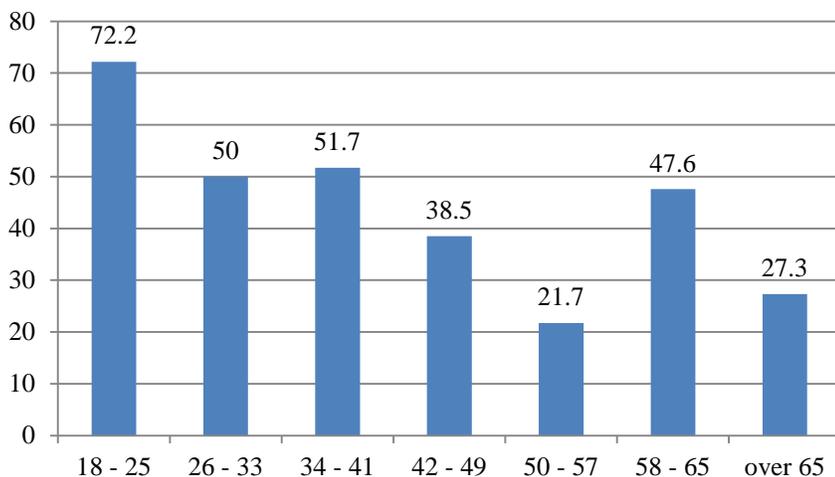
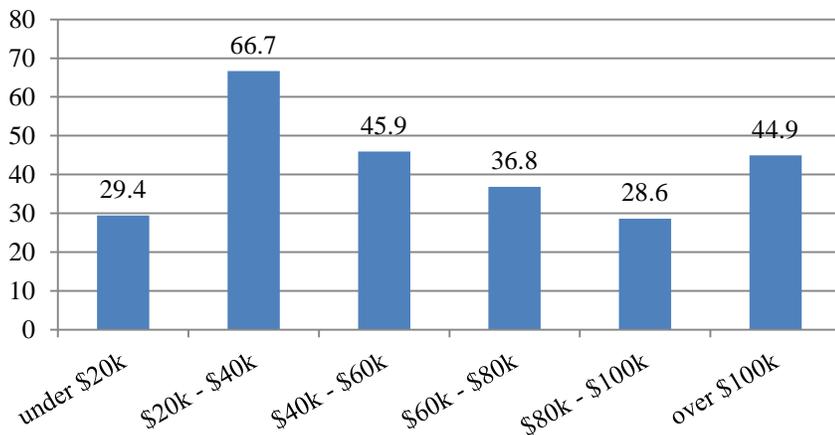


Exhibit 6. Customers Interested in Social Media in Each Income Bracket (%)



In addition, survey respondents who were interested in using social media for restaurant choice said they would be also interested in happy hours and family friendly atmosphere as an important attribute of the restaurant.

#### *Groupon or Not...*

Even after the survey results were analyzed, Dan, Jay, and Joe were still unsure if Groupon made sense for Montegro's. A Groupon promotion would put a dent in the profitability and they were not sure if the core target market would be happy with the promotion. They were sitting at an empty table at Montegro's looking at each other waiting for someone to make an executive decision.

#### **Case Questions**

1. Should Montegro's run a Groupon promotion? What are the pros and cons?
2. If yes, what would be the best strategic approach to maximize the impact?
3. If yes, what should Montegro's do to manage the cons?
4. If not, what alternative is there for Montegro's to achieve the benefits of Groupon?

#### **References**

- Auty, S. (1992). Consumer Choice and Segmentation in the Restaurant Industry. *The Service Industries Journal*, 12(3), 324-339.
- Banks, J. (2008, October). Nielsen: Global Diners Want Familiar Foods and Fair Prices. Retrieved June 5, 2010, from The Nielsen Company at <http://tw.en.nielsen.com/site/news20090409e.shtml.shtml>
- Basham, M. (2010). *Industry Surveys: Restaurants*. New York: Standard & Poor's.
- Dizik, A. (2012). Business lunches beat the clock. *Wall Street Journal*, June 4, 2012. Retrieved online from [wsj.com](http://online.wsj.com/article/SB10001424052702303657404576363883848608592.html) on August 20, 2012 at <http://online.wsj.com/article/SB10001424052702303657404576363883848608592.html>
- Erickson, T. (2009, July 19). *Why Generation X Has the Leaders We Need Now*. Retrieved June 5, 2010, from Harvard Business Review: [http://blogs.hbr.org/erickson/2009/07/why\\_generation\\_x\\_has\\_the\\_leade.html](http://blogs.hbr.org/erickson/2009/07/why_generation_x_has_the_leade.html)
- Groupon Independent Study (2012). Nielson Group.
- Lokyer, S.E. (2009). "Closures, downbeat industry reports deflate recent turnaround optimism." *Nation's Restaurant News*, 43(29), 2009, 4-6.
- National Restaurant Association (2010). 2010 Outlook. <http://www.restaurant.org>. Accessed Jan. 9, 2010.
- Rowe, M. (2008, January). Generation Revelations. *Restaurant Hospitality*, pp. 26-30.
- Schonfeld, E. (2011). Exclusive data on Groupon's U.S. revenues and February falloff. March 23, 2011. Retrieved March 23, 2011 from [techcrunch.com](http://techcrunch.com).

### **Instructor Notes**

This case examines the challenges that small business owners face in generating new business in a poor economy, especially in a business that is in the maturity stage of the business life cycle. The challenges facing Dan and Jay Montegro and their business partner, Joe Zito, revolve around how to increase revenues in the 17 year old business that has been negatively impacted by the “Great Recession”. The students are asked to evaluate the restaurant’s current position and recommend if the business should launch a social media campaign with Groupon, something that the business owners have never done before.

#### *Methodology*

The case is based on one of the author’s personal experience of owning and operating a casual dining restaurant. The case facts are based on the co-author’s experiences during the past four years of trying to survive and grow sales during the downturn in the economy. The co-author / small business owner sought the assistance of a university Marketing Research class in order to develop a reliable instrument that measured a variety of variables to gauge the current strategic posture of the business. The results, tables and exhibits in this case are the actual results found in the study conducted by the student groups. The restaurant financials depict the actual drop in sales percentage during the downturn in the economy.

#### *Teaching Approach*

The case’s focus on promotional strategies for a small business makes it appropriate for Small Business Management, Entrepreneurship, Promotions, Marketing Research and Hospitality Marketing courses at the undergraduate and graduate level. For a Small Business Management or Entrepreneurship class, this case would do well with chapters focusing on promotional strategy and revenue growth at the small business level. This case would also work well in Promotions and Hospitality Marketing classes when evaluating social media opportunities as well as developing marketing research surveys.

### **Case Overview**

The case begins with co-owner Dan Montegro standing in the dining room of his 17 year old business and wondering what he and his partners need to do to get customers back into the empty dining room seats. The small business, which had earned many accolades over the years and would be on a wait Monday through Friday for lunch, had seen sales decreasing since 2009. The “Great Recession” had a profound adverse impact on this business and the owners were trying to rebuild the lost revenues. The case then presents the history of Montegro’s Italian Grille and a profile of the ownership group.

The case gives background information on the casual dining industry and the impact the recession and economic situation has had on the industry as a whole. This information is provided so students can better understand the broader environment that Montegro’s is dealing with. Students are then given detailed information regarding social media, specifically Groupon. Additionally, data reflecting a variety of demographic information regarding current customers of Montegro’s is provided to the students for analysis. The case ends with students being asked to make recommendations regarding the most appropriate approach to improving Montegro’s revenues.

### **Learning Objectives**

- Understand the challenges of small businesses in a tough economic environment.
- Analyze the pros and cons of a business taking advantage of social media based on the strategic objectives and fit.
- Create social media promotional strategies to achieve increased revenue for a mature, small business.
- Conduct a cost benefit analysis between the dollars received from the Groupon deal and the food/cost of goods sold for the restaurant.

## Discussion Questions

**Question 1:** Should Montegro's run a Groupon promotion? What are the pros and cons?

Montegro's has never participated in a social media promotional campaign. The data, analysis and statistics from the independent analysis provided by Groupon should push the students towards recommending the promotional strategy to Montegro's but the students should be able to identify the cons of running a Groupon promotion.

Pros:

- Introduce new customers to the restaurant.
- Build on the current brand.
- Reactivate lost or lapsed customers.
- Spark new energy into the concept.
- Add new customers to existing database (with some type of repeat rewards programs).
- "Leisure" customers were more likely than business customers (40.3% vs. 30.5%) to use social media such as Groupon and this was the customer segment Montegro's was trying to grow in this economic environment.

Cons:

- Customers only come in one time for Groupon deal.
- Current customers become more sensitive to the price and promotion deals.
- The restaurant appears to be busy, but no additional revenue is actually generated.
- \$7.50 share of the Groupon sale does not cover the cost of product, so promotion costs the restaurant money.
- Current food cost as a percent of sales is almost 28% (2011) up from pre-recession levels of 24.7% (2007). A Groupon deal for \$30 of food for \$15 would provide \$7.50 of revenue to Montegro's. This amount would not even cover the food costs of \$8.40 (\$30 x 28%).
- Staff might get overwhelmed with new influx of business and provides poor service, creating negative experiences.
- The owners are more traditional in their approach to running the restaurant, which makes it risky to adopt a brand new promotion tool such as Groupon.

The discussion of the question of whether Montegro's should run a Groupon promotion or not should start with identification of the restaurant's long-term strategic objectives. Considering the pros and cons listed above, Montegro's needs to answer two questions: 1) are the pros strategically important enough to jump on Groupon, and 2) can the cons can be managed to avoid long-term damage to its business. To give the Groupon promotion a green light, the answers to these questions have to be both 'yes'. It is recommended for the instructor to play a devil's advocate and draw a debate among students on where the owners should pay more attention – the pros or the cons.

**Question 2:** If yes, what would be the best strategic approach to maximize the impact?

The discussion on this question should start by identifying the long-term strategic objective Montegro's wants to accomplish. There are two possible objectives Montegro's can go after: 1) expand the loyal customer base, or 2) increase revenue with one-and-done customers. If the former is adopted, Montegro's needs to make sure that every first time Groupon customer is converted to a Repeat Customer Program. This would aid in curbing the "one and done" Groupon user. If the Groupon customer is a value hunter the repeat rewards program will continually give them a reason to return to the restaurant. This strategy will also get the Groupon customer into the restaurants data base.

If the latter objective is adopted, Montegro's needs to train the staff in effective upselling. This way the Groupon customer will spend above the \$30 promotion and the restaurant will benefit from the added revenue.

**Question 3:** If yes, what should Montegro's do to manage the cons?

Again, to counter the first con Montegro's needs to convert as many of the Groupon customers into their repeat customer program. They can additionally try to negotiate a better split with Groupon in order to get more than the standard 50/50 split of Groupon sales. They may have a good chance of achieving this since they are an established small business.

Also it is critical that the owners and staff take any new promotion such as Groupon in a methodical way. As mentioned in the case, the owners never used a social media promotion before, and also their management style is old school where they like to get to know the customers and compete on food quality rather than the price. The staff is trained to ensure a comfortable dining atmosphere, but a Groupon promotion might change customer expectations rather drastically. Therefore, the owners should take baby steps to make sure they understand what they are getting into, and they will need to staff accordingly in order to make sure they can accommodate the influx of new business. The last thing that they can afford to have happen is to bring in people that have never dined at Montegro's and have them have a negative experience.

**Question 4:** If not, what alternative is there for Montegro's to achieve the benefits of Groupon?

This is the question where the puzzling results from the customer survey should play an important role. Even though the traditional core target market of Montegro's (i.e., high income, older couples) are also interested in social media, the younger generation is more knowledgeable and comfortable with using social media in their restaurant choice. So, if Montegro's decides not to run a Groupon promotion, a viable alternative is implementing an aggressive promotion campaign through conventional media including television, radio, and local newspapers. Montegro's has not had to promote this way previously because of the success it enjoyed over the years, but it could be a strategic change required for better long-term success. It has its shortfalls in focusing on the local market, but they are the ones who can become repeat customers.

Another option Montegro's should consider if it wants to get involved in social media is to utilize Facebook rather than Groupon. It would not bring in the large number of immediate customers as Groupon has the potential to do, but it costs a lot less (no 50% cut to Groupon) and also Montegro's can be in complete control of the promotion, message, and targeting. Specials and coupons can be run on Facebook and it also offers a lot more intimate setting where customers feel like they are in direct communication with Montegro's rather than a middleman such as Groupon. The market research showing Facebook as the most important social media outlet encourages this approach.

# Eastern Europe Hotel Small Business Revenue Management in Economic Downturn

Sjoerd Gehrels, Stenden University of Applied Sciences, Leeuwarden, The Netherlands  
Oleksandra Blanař, Prague Hilton Hotel, Czech Republic

## Abstract

This study explores revenue management practices in two Prague hotel small businesses throughout the past years of economic crisis. The purpose of the research is to inform small business management and education about revenue management practices in Central Europe's emerging and challenging hospitality market. Data was collected through participant observation, accessing company documents, and by accessing key informants. This study identifies the necessity for careful pricing strategies, and resisting discounting. Rate dilution and price wars in the market should be avoided in order to be prepared for times of recovery. To maximize revenues, forecasting should be accurate, group contract conditions should be monitored, and over-sales versus spoilage factors balanced. Strategies aimed at both direct and indirect channels should be aligned to maximize value and cost effectiveness.

## Background and Justification

Hotel industry in the USA, as one of the first business sectors, began to feel the effect of the economic crisis in December 2008. Central and Eastern European countries followed, and the effect of the crisis showed in declining hotel revenues and decreasing demand. In hotel small businesses, one of the main strategies for profit maximization is revenue management. Within a healthy economy, revenue management is perceived as a "well running machine", while during low demand periods, it is sometimes viewed as a low priority activity (Mainzer, 2009). It is under challenging conditions that revenue management becomes more important than ever. This study addresses revenue management during times of economic crisis by looking at the two Hilton Prague hotel small businesses. For successfully implementing a revenue management strategy, a hotel needs detailed data on past demand patterns per market segment and methods of projecting current market demand.

With the economic downturn, many hotel revenue managers have been struggling how best to manage declining demand and the pressures to reduce rate. Hotel small businesses have experienced decreasing occupancy, ADR (average daily rate) and RevPAR (revenue per available room). Recently a wealth of research focused on revenue management and its role for the hospitality industry in economic crisis (Kimes, 2008, 2009, 2010; Butscher, Vidal & Dimier, 2009; Caudillo-Fuentes et al., 2009; Garrow & Ferguson, 2009). There was, however, few research about the holistic effect, the economic crisis has on revenue management practices.

The main aim of this research is to identify how the economic crisis has influenced the application of revenue management, and particularly the approach to managing distribution channels, forecasting, pricing strategies and overall demand generation and management. This study creates an interesting discussion of revenue management as business strategy for small business management and academic study. The main research question for this study is: 'How did economic crisis influence the practice of revenue management in Eastern Europe's small business hotel industry?'

## Literature Review

Revenue Management (RM) is a process of allocating the right type of capacity to the right kind of customer at the right price so as to maximize revenue or yield (Zeithaml et al., 2006). Kimes (2003) defines "right" as achieving the maximum revenue for sellers, and gaining the maximum value for buyers. This means to offer discounted rates to stimulate demand for inventory that would otherwise go unsold, while limiting the availability of the discounts to customers who are willing to pay higher price (Kimes, 2003).

Cross, Higbie & Cross (2009) define RM as disciplined tactics that predict consumer behavior at the micro-market level and optimize product availability and price to maximize revenue growth. Revenue management originated from the airline industry in the 1970s, but soon was also applied in other industries. Salerno (2008) stated that the main purpose of RM, in the airline business, is to fill at least a minimum number of seats in order to cover fixed operating expenses. In the 1990's, revenue management emerged in the hotel industry, when hoteliers embraced the concept in order to increase overall hotel profits, not just room revenue (Bowden, 2006). Harewood (2006) asserts that firms adopting RM successfully share some common characteristics: (1) being able to segment the market; (2) having high fixed costs and low variable costs. Netessine & Shumsky (2002) mention commitments to be made as important, when future demand is uncertain. Revenue management fits the hotel small business, having a fixed amount of capacity being "very perishable".

Typically hotels have two strategic levels for managing revenue: duration control and demand-based pricing. Common application of RM for transient customers is that rate and inventory availability is dictated by forecasted demand in the market. While this approach maximizes the room revenue generated from a single transaction, it may not lead to optimal long-term gains. Sophisticated integration of sales and marketing and customer relationship management (CRM) is needed to manage the process. Proactive RM implementation allows a hotel to achieve the highest possible revenues, not only in terms of rooms' revenue but taking a holistic approach including departments such as F&B outlets, function spaces, casino, spa etc.

At the end of 2008, the global economic crisis created numerous problems for a variety of industries including hotel small businesses. The combination of growing room supply, shrinking room demand, and declining room rates led to an alarming drop in revenue per available room (Smith, 2008). Butscher et al. (2009) also alert to the effect of stagnant investment in the hotel small business sector because of reduced capital for new projects or renovations. They suggest that most hotel companies have already cut their fixed costs as much as they could by deferring hotel infrastructure ownership to third parties and outsourcing part of hotels' everyday management. The recession caused nearly all hotels to re-examine their rates and the potential value they offer to travelers. Too many hotels reduced overall rates only to find that lower rates don't create higher demand, and consequently produce lower overall revenue (Salerno, 2010).

Hotel small businesses in Prague, because of the crisis, started to look for other business opportunities to compensate for the market decline around 2009, reaching out to corporate meetings. This resulted in rate declines and price wars among hotels in the city. To provide insight understanding of the underlying processes, this research tried to find out what actually happened in the practice of revenue management.

### **Methodology**

For this research, a qualitative case study design was chosen, which can serve as a representative case to provide an example for other businesses. Participant observation was used as primary data collection technique supported by company documents and analysis of the company's website. The observed actions concerning revenue management procedures were noted. Next, summaries were made and compared with the company documents. The analysis allowed identifying main themes, and formulating conclusions. This research was organized as case study to cover contextual conditions that were relevant to the practice of revenue management. This allowed retaining the holistic and meaningful characteristics of real-life events such as organizational and managerial processes, and discovering unforeseen relationships and concepts as suggested by Yin (2003).

To ensure the study's validity and reliability, we followed Yin's (2003) case study protocol: using multiple sources of evidence, establishing a chain of evidence, and having a draft case study report reviewed by key

informants. The selection of the case company was driven by having direct access to the data because one of the two researchers held a revenue management related position within both Hilton hotel small businesses in Prague.

## Results

Prague Hilton revenue managers divide the hotel small business market into major and minor segments. This assists them in pricing, in order to maximize revenues and to avoid any revenue opportunity to be missed. The two segments' definitions are primarily based on: the purpose of stay, category (business or leisure), and size of the party (group or individual). We found that the pricing structure is tightly bound to the market segments, meaning that every market segment has its own price. Hilton Prague hotel small businesses use rate fences in order to stimulate demand in need periods and to restrict it in high occupancy dates. Certain rate fencing is also applied to packages and promotions. Group pricing and group acceptance decisions are highly dependent on the transient customer base for the given period, events in house and in the city for the given time. For leisure groups, meetings and conferences, prices are based on request (demand calendar). Conference and events rates are higher than leisure group rates, being in some cases in line with the public rates. Contracted rates are usually flat or seasonal and agreed for a certain period of time, usually for a year.

Seasonal rates, in case of Hilton Prague hotel small businesses, are contracted for leisure individuals and also for the leisure groups (TS – tour series). Pricing structure is usually based on identified market segments. Hotel initiatives during times of recession include special leisure offers of highly discounted rates for certain markets to adjust to their decreased buying power. Such special offers aimed at, for example, Israel, Greek and Russian markets. Within the 'packages and promotions' segments, there were Global Hilton promotions like "January sale" or "Summer sale" etc. Those promotions were usually 50% off the standard high or RACK rate (high standard rate), and were restricted by the minimum length of stay of at least two nights, had certain advance purchase requirements with the lead time ranging from 7 to 21 days prior to the day of arrival. In most cases certain days of the week, usually weekends, were required days of stay. These promotions were always fully pre-paid, non-refundable and non-changeable. The main purpose of those promotions was to gain a volume base for the need periods.

The overall drop of the ADR between 2007 and 2009 was 26%. Rates for the leisure groups were decreased not to lose the business to the competition. Undertaking displacement analysis was less and less common practice because every piece of business was chased. Demand forecasting, performed on a regular basis, in Hilton Prague hotel small businesses is crucial for the selling strategy and price optimization. There are two types of forecast in Hilton Prague hotel small businesses:

- I. Automated forecast, part of the revenue optimisation cycle, generated by the Ideas Revenue Optimization Software program.
- II. Forecast performed by the revenue manager. This forecast is based on the same factors and serves as a validation of the system generated forecast and the revenue manager adjusts it based on the information that cannot be fed into the software system.

The main demand management tools used by Hilton Prague Hotel small businesses are pricing and overbooking. Additionally, capacity allocation is based on the business type and market segments. Each day there is a certain number of rooms allocated and available for sale. Among the allocated rooms are fixed (e.g. travel agents and air crews) and variable share (group tours, meeting and conferences). What is left is then sold directly at the hotel level as well as through various distribution channels to Corporate, and some of the minor leisure segments.

Overbooking in Hilton Prague hotel small businesses is actively used as one of the demand management-, capacity allocation-, and revenue maximization tools. Hilton Prague has the biggest capacity in the city and is not so many days in the year fully booked. Hilton Prague Old Town is smaller than Hilton Prague and cannot afford aggressive overbooking. The two sister hotels are located in relative proximity and provide similar product and service. A cluster selling strategy is used for both hotels.

Hilton Prague hotel small businesses deal with significant number of conferences and events, and are using an attrition clause in the contracts. This is part of cancellation conditions and mentions the fees to be paid in case the contracted number of rooms is not sold or F&B revenues lost. Supply forecasting is done only on ad hoc basis by the revenue manager without Ideas system input. Revenue mix and length of stay control settings are usually done by the Ideas system and are based on the business on the books. The revenue manager may then adjust them if necessary.

Forecasting and the factors taken into account remained the same during the economic crisis. What changed was the number of adjustments in the automated forecast done manually by the revenue manager and the time spent on it. In the pre-crisis period 'system vs. manual forecast' was roughly '80%/-20%', during crisis it would be 50%-50%. The buying behaviour of the different market segments changed, resulting in shorter lead time and bringing more uncertainty in the business planning. Business on the books, particularly RACK and international business traveller segments became much lower. During the crisis, unconstrained demand (actual demand + no-shows + denials) gave a clearer picture.

Meeting business became the major issue. In both pre-crisis and crisis times the share of group business was roughly 70% (35% meeting business 35% leisure group). However, during the crisis periods there were a higher number of cancellations and no-shows. During the crisis, focus on the system set-up increased to ensure correct market segments and rate set-up were in place. Both, demand management and capacity allocation did not change during the economic crisis. What changed was the approach to the tools used to generate the demand. In most cases it was aggressive discounting to attract more customers for a better price offers (by as much as 26%).

During the economic crisis, there was less overbooking due to decline in demand. In many cases, attrition fees were waived to support future business from the particular organizer. Cut-off dates mentioned in contracts were in many cases moved closer to the arrival date. During the economic crisis, virtually every business was accepted and special requests like early check-in or late check-out were in most cases automatically confirmed. Due to decreased demand during the economic crisis, both revenue mix and length of stay controls became important revenue maximization tools. Higher incentives for both reservations and front office were given for up-selling, which proved to be successful.

Biggest share of individual and group bookings for both hotels came directly to the hotel, without any intermediaries, by phone or e-mail. Statistics showed that the share of direct bookings is the biggest for both hotels: Hilton Prague (HP) – 83% of volume, 81% of rooms' revenue in 2007, Hilton Prague Old Town (HPOT) – 64% of volume and rooms revenue in 2008. Brand web (Hilton.com) is one of the major on-line sources of bookings for both hotels, especially for HPOT (15% of total volume and rooms' revenue in 2008). This channel is very important for the company not only because it is one of the most cost effective but also because it is one of the major marketing and selling tools. Both Hilton Prague hotel small businesses sell through all major GDS channels: Sabre, Galileo, Worldspan and Amadeus. Statistics show that the share of GDS bookings in HP in 2007 was 6% bringing 8% of rooms' revenue and in HPOT in 2008 11% bringing 13% of rooms' revenue.

As a part of Hilton Worldwide family of hotels both Prague Hiltons have global partnership agreements with Online Travel Agencies (OTAs) e.g. Expedia, Travelocity, Orbitz, Booking.com. With the major part of the OTAs, Hilton hotels operate on the direct connectivity basis, which provides access to the total hotels' inventory and public rates including chain-wide promotions. OTAs are providing useful service, promoting both hotels during low demand dates. However, a very small percentage of all bookings (2%) come through those channels and there is an effort from the global office on getting that minority back on Hilton.com.

Most cost effective channel, in terms of distribution cost, is hotel direct because of no additional costs other than the payroll of the reservation departments' employees. A reservation booked through a Hilton Reservation Call Centre (HRCC) costs a hotel \$ 1,5. Brand web booking cost for a hotel is around \$1. GDS booking depending on the particular GDS costs a hotel roughly \$ 3. All the mentioned costs are fixed no matter what is the price value of the booking. In case of OTAs and traditional TAs the booking fee is expressed in a percentage commission and varies based on the price value of the booking. The classic commission percentage is 10%. In special cases this percentage may be lower or higher depending on a particular TA. Among all those channels, OTAs appear to be the most expensive for hotels to cooperate with because not only their booking cost is variable based on the percentage and it is usually higher than 10% reaching up to 25%.

Both Hilton Prague hotel small businesses use a rate parity clause in the contracts with the travel agents, which obliges them not to disclose the confidential contracted rates and to add such a margin that they comply with the rate parity. Rate parity compliance guarantees the fulfilment of the Hilton customer promise of the "best rate guarantee" which means that the guest will not find a lower price on any other channel than brand web, enabling this way the guest to book directly with the hotel. The promise includes the condition that the hotel will refund the guest the difference in the rate booked and lower rate found plus an extra \$50.

Social media was one of the emerging marketing tools and booking channels for Hilton Prague hotel small businesses. Both hotels have their own Facebook page on which marketing department publishes various promotion materials, photo shoots, news updates and engages with the customers. There is a booking button on the Facebook page to enable the fans and the Facebook users to book directly from Facebook. Twitter usage was in the researched period not so advanced yet as Facebook. Prague Hilton small businesses use paid search (PPC: pay-per-click) that allows buying an advertising space on various search engines such as Google or Yahoo. The ads are triggered by customers searching on a range of keyword terms. The price the hotel pays when a customer clicks on the ad varies by search engine and is dependent on keyword used – the more popular the keyword term, the more expensive it is to buy. The click cost (cost per click –CPC) for each keyword term can be as low as a few cents to as high as \$5 or more.

In order to make revenue management procedures run smoothly, there are a number of IT systems the hotels work with. As a basic one there is PMS Fidelio, which allows making and storing reservations, checking guests in and out, and making all necessary payment transactions. Besides Fidelio there is Cris two-way interface, which transfers all the booking data from the Central Reservations System (CRS) HILSTAR to the hotel Property Management System (PMS). Furthermore, there is the most important software program for Prague Hilton small businesses: Ideas Revenue Optimization tool, which is mainly for pricing and forecasting purposes and as a result serves as revenue maximization and optimization tool.

During the economic crisis the share of direct bookings did not change for HPOT, while showing a 1% decline for HP. Share of HRCC bookings decreased in both properties, from 3% to 2% in HP and from 8% to 6% in HPOT. The share of online bookings made through the brand web showed growth of 1% in HP and of 2% in HPOT. During economic crisis the channel strategy was to increase the number of brand web

bookings as part of distribution cost saving but also as most cost effective way of acquiring new customers. After the economic crisis hit Prague market, as a part of cost saving initiative, participation in the GDS promotions was terminated. Despite the high costs, sales through the OTAs were pushed. Hilton marketing managers were pushing for higher commissions for the OTA's to increase the hotels' positioning and visibility. Customers became more demanding and customer reviews gained more value and directly influenced hotels' listing on the OTAs pages.

During the economic crisis the focus on costs, logically, became more intense than before the crisis. The cost of distribution through various distribution channels did not change but the strategy of sales through these various distribution channels changed. The main aim was to shift business from more expensive to less expensive distribution channels. Driving more revenues through the brand website became a main objective in the economic crisis times. It became more difficult to deliver the brand promise of the rate parity and to "guarantee the best rate" due to breaching of the contract conditions by the wholesale partners. More frequently the confidential wholesale rates were sold online by third party OTAs.

Market segmentation in Hilton Prague hotel small businesses was based primarily on customers buying behaviour and purpose of stay and differentiated as individual or group business. Suggestions by Helsel & Cullen (2006) in terms of blurring market segment borders were not reflected in this research. The fact that some customers cleverly search and book lower rates, is obvious. For example, incentive groups "pretending" to be leisure groups (lower rates), resulted in ADR and revenue dilution. This development explains a shift of customers from one segment to another, indirectly resembling market segmentation blurring.

Demand-based pricing strategy used in Hilton Prague hotel small businesses is in line with the literature. Similarly, rate fencing as described by Vinod (2004) was actively used in these small businesses. Group pricing strategy was generated based on, but not limited to, displacement analysis as was suggested by Cross et al. (2009). Demand forecasting was based on booking patterns, market segments behaviour, and business on the books, time frame and length of stay. Manual adjustment of the system generated forecast became more crucial during the crisis due to the rapid change of customer behaviour and new market conditions. These findings confirmed studies of Bobb & Veral (2008) and Schwartz & Cohen (2004).

Demand management and capacity allocation in Hilton Prague hotel small businesses were maintained primarily through pricing and overbooking controls. For particular segments such as meeting business, attrition condition contract clauses served as an insurance securing the dedicated inventory. This is in line with Vinod (2004, 2009), Bobb & Veral (2008), Harewood (2006), Toh & DeKay (2002). Carroll & Noden (2010). Asserted distribution channels to be a capacity allocation tool, however, was only indirectly confirmed in this research. Most of the channels have direct access to the total hotels' inventory and are restricted only in rare cases.

Findings about product distribution in this research resonate with the literature in terms of main distribution channel usage, cost of distribution, and rate parity issues (Choi & Kimes, 2002; Mainzer, 2004; Gazolli et al., 2008; Vinod, 2009; Mourier, 2010). Emerging of social media was noted in Prague Hilton hotels, however not to the extent Carol & Noden (2010) talk about. We believe, however, that it is only a matter of time until the usage of social media in the practice of revenue management progresses further into the Prague market. In line with literature, IT systems play an important role in storing, processing and analyzing a vast volume of data as suggested by Orkin (1988) and Mainzer (2004).

Summarizing, it can be said that market segmentation did not change during the economic crisis in Hilton Prague hotel small businesses. Pricing on the other side was exposed to discounting and significant rate decrease by as far as 26% in combination with overall low demand, which declined by 20%, resulting in rooms revenue to drop 41%. Major changes in demand forecasting happened in the booking patterns, which made the forecasting based on the previous periods irrelevant and projecting an accurate forecast challenging. In order to perform the most accurate forecast, the revenue manager had to validate each Ideas programme projected demand forecast, which increased the share of the revenue manager's adjustments done to the system. In terms of demand management and capacity allocation during the economic crisis aggressive discounting and overbooking were practised in Hilton Prague hotel small businesses.

Contrary to the revenue management principles, all reservations were accepted to fill up the hotels' capacity. Waiving attrition fees were serving as deal-breakers for meeting events as well as flexible cut off dates. Special requests such as late check-out or early check-in were confirmed, without checking whether this would really be feasible, just to get the business. During the economic crisis the focus was also on up-selling as one of the revenue maximization tools supported by an incentive program for the reservations and front office employees.

There were no major changes in the product distribution in Hilton Prague hotel small businesses. There was a slight decrease of volume coming from the Hilton Reservations Call Centre, which is a result of overall low demand in combination with decreased popularity of this booking channel. On-line channels increased as a result of shifting business from the off line channels. Cost of distribution received high management focus, while unfortunately a lack of business, led management to accepting business from all channels regardless of the costs involved. Rate parity and "best rate guarantee" policy, how important they are, were difficult to maintain in tough and highly competitive market conditions.

### **Conclusion**

This section provides a discussion of the findings, the conclusions, its contribution as well as limitations of the study and recommendations for future research. Based on the analysis of the market segments, we found that the market segmentation structure did not change by the economic crisis. What changed was the buying behaviour of the customers from different market segments. This implied in some cases temporary migration of some customers from one segment to the other in search of a better price offer, either directly or through different types of manipulation. Overall individual segment borders have somewhat blurred because in the search of lower rate, corporate customer could easily book special promotions found online, or worse, opaque rates up to 50% lower than the public or the corporate contracted rates. This resulted in rate dilution and overall decrease in revenues.

Individual wholesale promotions were aimed at increasing the occupancy base and average length of stay and to allow for ancillary revenue streams through potential spending on F&B, spa and other hotels services. Drastic decrease of public rates waived price war issues by the players in the market. There were several newspaper articles, in which especially Hilton Prague hotels were accused of decreasing the rate too much, and as a result forced the rest to follow. Lower leisure rates left space for the travel agencies and event organizers to manipulate, which made the revenue manager and the leisure groups team more alert on the groups' requests when typically higher priced incentive groups were named leisure groups in order to get lower rates.

When the market showed signs of slow recovery and volume was growing, it was difficult to increase the rates to the pre- crisis levels. In the meetings and conference segments the situation worsened because these types of business are usually contracted some time in advance. Those meeting events in the hotels during the

recession time saved revenues because the rates contracted were still rather high. Meetings booked during the crisis, however, made it hard to increase the ADR when business was picking up, and therefore kept revenues under pressure.

Short-term effects of decreasing the rates may be to fill the rooms that otherwise may have staid unsold, but with the risk of rate erosion and consequently lower revenues gained. In the long-term, the effect of rate decreasing may be destructive for the hotel small business as well as for the market it operates in. Discounting rates in order to increase occupancy induces higher costs involved on a per-room basis and decreases profit margins. Discounting rates leads to price wars and struggle to get one's fair share as hotel. The reality is, however, that lower rates may not necessarily attract more customers to the destination. When demand increases, it will be challenging to bring the previous rate structure back, because customers are already "educated" by hotels in finding lower hotel prices and being more price sensitive than ever.

Analysis of the forecast, and its quality under different economic conditions showed that the reliability of the computer system generated forecast decreased significantly, making the forecasting process more like a "crystal ball exercise" during times of recession. This resulted in a more manual interference by the revenue manager, caused by the changing or sometimes erasing of the booking patterns of the market segments. High wash factor during the economic crisis remained as one of the most important points for forecasting considerations, which resulted in higher overbooking levels in order to avoid dilution of business and diminish the spoilage factor.

When the Prague hotel small business market seemed to become more stable, the lower the "actual wash" was in both meetings and leisure bookings. In some cases groups converted with 100%, which resulted in a high amount of business that had to be walked out. Eventually, this resulted in revenue loss due to the walk out costs in financial terms and spoilage of the company image and goodwill of Hilton Prague hotel small businesses. Waiving attrition fees, changing cut off dates, and including cancel and replace clauses prevented revenue management to accurately predict the occupancy and set an optimal selling strategy for any of the group dates, which is in essence a hidden revenue killer. Automatic confirmation of special requests like early check-in or late check-out triggered service issues and customer promise gap when the hotels were not able to accommodate those requests resulting in guest dissatisfaction and sometimes in costs. Focus on up-selling and length-of-stay controls on the other hand favoured revenue and occupancy increase.

Results on the product distribution and distribution channels showed the economic crisis not to have changed much of the product distribution in Hilton Prague hotel small businesses. Even though the share of Hilton reservations call centre bookings decreased during the economic crisis, we believe that it not so much due to the economic crisis but more the overall decreasing popularity of the "voice" channel for making reservations and growth of internet as a primary choice of a customer when booking a hotel. Increase in the share of brand web bookings speaks in favour of this theory. This increase, however, is also coming from the efforts made to convince customers, booking elsewhere to book through the brand web.

Decline in GDS share of bookings was caused not only by the economic crisis, weaker buying power and lower company budgets directly, but also by the lowering of public rates and introducing considerable discounts in the form of promotions. Share of on-line travel agency bookings in Hilton Prague Old Town increased due to the efforts aimed at this channel, which was contrary to the overall cost saving strategy and also result of the business shift from one hotel to another within the Prague Hiltons.

Multiple cases of failure to deliver the "best rate guaranteed" not only involved direct financial costs of having to pay the customer the promised rate difference and \$50, but also involved service recovery issues

plus reputation and goodwill issues. As a result those cases were brought forward to the contract breaching wholesale partners, which in most cases was not easy because the OTAs involved would usually not disclose their rate sources. In such cases the only way to learn which partner was breaching the contract was to make a reservation through this channel and to see from which travel agent it would arrive. Further investigation of such cases usually affected the relationships between the business partners, because very often those happened to be the most productive and valued business partners of the hotel small businesses.

Although the sample of this study only represented two Hilton Prague hotel small businesses, which does not allow generalization of the results, some interesting implications could be formulated for both practice and education. The economic crisis in Prague's hotel small business seemed end of 2010 – beginning of 2011 to stabilize showing signs of recovery. There were, however, still “aftershocks” and it might be only a matter of time until crisis would arrive again. Besides that, hotel small businesses usually find themselves in similar situations during low demand periods even in the stable market economy. Therefore, this study has several implications for revenue management practitioners in small businesses.

Most important implication identified in this research is the need to maintain the rates as much as possible. Discounting may save the day for the short-term period but can be quite destructive for the overall business strategy on the long run. Rather than discounting only, a better solution may be to offer additional value to the customer without compromising the rates too much. Additional features, such as free internet use included in the rate, breakfast and parking are examples to consider including in the rate. Another significant suggestion to practitioners would be to carefully follow the contract conditions such as the attrition clause, cut off dates and cancellations conditions. This is especially important for hotels that have substantial meetings business for it will not only secure the committed inventory but also will favour accurate forecasting.

Practitioners' priority should be to make sure that demand forecasts are accurate so that they can be used to properly support their business decisions, particularly related to group sales. There should also be extensive focus on correct segmentation and, when discounting, to identify those market segments where it is least damaging to lower prices. In terms of forecasting, the focus should not only be on the next 90 days, but also to look at a 12 months strategy. Revenue managers should look at the pace of booking when the arrival date approaches in order to adjust the forecast accordingly. The technology component remains important in revenue management practices even when the booking patterns change constantly. Having up-to-date systems will be benefitting for the practitioners saving time and providing more room for manoeuvring with the data available, to achieve forecast accuracy and an effective pricing strategy.

Another conclusion from this study is related to cost-effective channelling. During the challenging low demand periods, the focus should remain on the direct sources of business and the hotels' own website. Chain connected hotel small businesses usually have a strong own website and therefore invest in it more. This allows saving the distribution costs and securing the acquired customer base looking from a long-term perspective. Finally, both direct and indirect channels are customer's requisites and therefore strategies for both should be aligned to maximize value. If, on the long run, a hotel can build a credibility that its prices are in parity irrespective of the distribution channel, the customer will in most cases book directly through the hotel's website. The aspect of the cost of distribution should not be looked at in isolation but as a part of the cost of acquiring new customers.

A suggestion for further research is to conduct a similar research, using a different research methodology including interviewing. This could enrich, validate and diversify the research findings. Secondly, the scope of the research can be broadened to compare several markets or hotel small businesses. The same type of

study could be conducted in other service sectors as well, such as small commercial businesses, or the bigger airlines or telecommunication businesses that usually are actively involved in revenue management strategies. We see several challenges for the hotel small businesses in the recovering Prague market besides the price wars and battles for the fair share,

Prague hotel small businesses are also facing external challenges. Firstly, Prague's popularity as a destination, in recent years, has decreased. According to the Czech Statistical Office, the number of visitors has decreased by 7% on year-over-year basis. Economic crisis is one of the reasons; however another reason is lack of investment in promotion of the city and country as a tourist destination but also as a conference and event destination. Investment in the infrastructure and congress and conference premises in the city would be needed. Prague hotels, by means of the Czech Association of Hotels and Restaurants (AHR), have made several attempts to collectively address the Ministry of Tourism about development in order to attract more visitors to the Czech Republic. The government and the Ministry of Tourism, however, have so far not been active in this process.

Another challenge for Czech hoteliers is the strong domestic currency. In the past, Czech Republic and Prague have been popular not only for its attractions and history but also for being relatively a cheap destination. Nowadays, this is not the case anymore because the Czech Crown continuously grows stronger and, relative to Euro and US dollar, has strengthened significantly over the past few years. The fact that many hotels quote their prices in Euro and US dollar for foreign markets, while charging and reporting in Czech Crown, makes the Czech Republic even less attractive and competitive compared to other European cities like Budapest or Vienna.

From 2012, the decreased VAT rate for most services and commodities will be reversed by the government leading to a VAT rate increase from 10% to 20%. The announced intention of the government is expected to have a further deepening of the crisis effects for the tourism industry and probably will lead to a sharp reduction of jobs in tourism. This increase in VAT percentage will also cover accommodation, thereby further reducing the competitiveness of accommodation in comparison to other EU countries. Within 24 of the 27 EU countries, reduced VAT rates are applied for accommodation services. Among the last states to implement this change was neighboring Germany. Even more alarming is the fact that the overall increase in household costs and firms will lead to further investigation of consumers and reduce their interest in discretionary goods, such as hotel services. This fact will ultimately lead to further job cuts in the tourism industry and thus increasing unemployment and have a negative effect on the Czech Republic's economy, tourism and hotel sector.

### References

- Bobb, L.M. & Veral, E. (2008). Open Issues and Future Directions in Revenue Management. *Journal of Revenue and Pricing Management*, 7 (3), pp. 291-301.
- Bowden, B. (2006). *Costs and Consequences: Understanding Hotel Operational Costs and How Revenue Management Affects Meeting Industry Pricing*. For HSMAI Revenue Management Special Interest Group. September 14, 2006. Retrieved on June, 19<sup>th</sup>, 2009 from <http://www.nfmpi.org/Cost%20and%20Consequences%20Revenue%20Management.ppt>
- Butscher, S. A., Vidal, D., & Dimier, C. (2009). Managing Hotels in a Downturn: Smart Revenue Growth through Revenue Optimization. *Journal of Revenue and Pricing Management*, 8 (5), pp. 405-409.
- Carroll, B. & Noden, M. (2010). *Demand Management: An Update*. Retrieved on July, 20<sup>TH</sup>, 2010 from <http://www.hospitalitynet.org/news/154000320/4045386.html>
- Caudillo-Fuentes, L.A. & Li, Y. (2009). Revenue Management during Times of Recession. *Journal of Revenue and Pricing Management*, 9, pp. 185-188.

- Choi, S. & Kimes, S. (2002). Electronic Distribution Channels' Effect on Hotel Revenue Management. *Cornell Hotel and Restaurant Administration Quarterly*, 43, pp. 23-41.
- Cross, R.G., Higbie, J.A. & Cross, D.Q. (D) (2009). Revenue Management's Renaissance: A Rebirth of the Art and Science of Profitable Revenue Generation. *Cornell Hospitality Quarterly*, 50 (1), pp. 56-81.
- Garrow, L. & Ferguson, M. (2009). Staying ahead of the curve: Using revenue management to help survive an economic downturn. *Journal of Revenue and Pricing Management*, 8 (2/3), pp. 279-286.
- Gazolli, G., Kim, W.G. & Palakurthi, R. (2008). Online distribution strategies and competition: are the global hotel companies getting it right?. *International Journal of Contemporary Hospitality Management*, 20(4), pp. 375-387.
- Harewood, S.I. (2006). Managing a hotel's perishable inventory using bid prices. *International Journal of Operations & Production Management*, 26(10), pp. 1108-1122.
- Helsel, C. & Cullen, K. (2006). A Future Vision of Revenue Management. *Hospitality Upgrade. Summer 2006*, pp.156-158.
- Hilton.com <http://www.hiltonworldwide.com/aboutus/index.htm>
- Kimes, S. E. (2003). Revenue Management: A Retrospective. *Cornell Hotel and Restaurant Administration Quarterly*, 44, pp. 131-138.
- Kimes, S. E. (2008). Hotel Revenue Management: Today and Tomorrow. *Cornell Hospitality Report*, 8 (14).
- Kimes, S. E. (2009). Hotel Revenue Management in an Economic Downturn: An International Study. *Cornell Hospitality Report*, 9 (12).
- Kimes, S. E. (2010). The Future of Hotel Revenue Management. *Cornell Hospitality Report*, 10 (14).
- Mainzer, B.W. (2004). Fast forward for hospitality revenue management. *Journal of Revenue and Pricing Management*, 3(3),pp. 285-289.
- Mainzer,B.W. (2009). *Revenue Management Doesn't Take a Back Seat During a Downturn*. Retrieved on July, 10<sup>th</sup>, 2010 from <http://www.hotelnewsresource.com/article36428.html>
- Mourier, J. F. (2010). *Rate Parity vs. Rate Integrity—What is Rate Integrity?* Retrieved on November 7<sup>th</sup> 2010 from [http://www.4hoteliere.com/4hots\\_fshw.php?mwi=5492](http://www.4hoteliere.com/4hots_fshw.php?mwi=5492) .
- Netessine, S. & Shumsky, R. (2002). Introduction to the Theory and Practice of Yield Management" *INFORMS Transactions on Education*. 3(1). <http://ite.informs.org/Vol3No1/NetessineShumsky/>
- Orkin, E. B. (1988). Boosting Your Bottom Line with Yield Management. *Cornell Hotel and Restaurant Administration Quarterly*. 28, pp. 52-56.
- Salerno, N. (2008). *What the Heck is Revenue Management, Anyway?* Retrieved on August, 2<sup>nd</sup>, 2010 from <http://www.hotelmarketingcoach.com/What%20the%20heck%20is%20Revenue%20Management.htm>
- Salerno, N. (2010). Hotel Revenue Management is Now More Important than Ever. Retrieved on January 3<sup>rd</sup> 2011 from [http://www.4hoteliere.com/4hots\\_fshw.php?mwi=5408](http://www.4hoteliere.com/4hots_fshw.php?mwi=5408) .
- Schwartz, Z. & Cohen, E. (2004). Hotel Revenue Management Forecasting: Evidence of Expert-judgement Bias. *Cornell Hotel and Restaurant Administration Quarterly*, 45 (1), pp. 85-98.
- Smith, R.A. (2008). Barometer of the Hotel Industry. *Cornell Hospitality Quarterly*, 49 (2), pp. 97-98.
- Toh, R. S. & Dekay, F. (2002). Hotel Room-inventory management: An Overbooking Model. *Cornell Hotel and Restaurant Administration Quarterly*, 43 (4), pp. 79-90.
- Vinod, B. (2004). Unlocking the value of revenue management in the hotel industry. *Journal of Revenue and Pricing Management*, 3(2), pp. 178-190.
- Vinod, B. (2009). Distribution and Revenue Management: Origins and Value Proposition. ? *Journal of Revenue and Pricing Management*, 8(2/3), pp. 117-133.
- Yin, R.K. (2003). *Case Study Research: Design and methods*, 3<sup>rd</sup> Edition, Sage Publications, Inc.
- Zeithaml, V.A., Bitner, M.J. & Gremler, D.D. (2006). *Services Marketing*, 4<sup>th</sup> Edition, McGraw-Hill

# Entrepreneurship Training and Prisoner Re-Entry: Lessons from a Successful Program

Matthew Sonfield, Hofstra University

## Abstract

Building upon earlier studies and analyses by the author and co-authors, this paper provides an in-depth investigation of a highly successful and comprehensive “re-entry” training program for prison inmates – the Prison Entrepreneurship Program in Texas (PEP). By reducing ex-convict recidivism by eighty percent and by producing saving to society of greater than five times the cost of the program, PEP has earned accolades and community support. This paper analyzes the nature of the PEP pre- and post-release program components, the key reasons for their highly successful outcomes, and the bases for the significant public support for PEP in a socially and fiscally conservative state such as Texas.

## Introduction

For more than a decade, this author has investigated the issue of the entrepreneurial propensity of prison inmates, and the potential benefits of entrepreneurial training for these inmates, both prior to and after their release from prison (Sonfield, 1992, 2008, 2009; Sonfield & Barbato, 1994a, 1994b; Sonfield, Lussier & Barbato, 1999, 2001). These investigations have been both empirical (empirical testing of inmates’ entrepreneurial propensities) and conceptual (evaluations of, and recommendations for, the entrepreneurial training programs). This paper continues this investigation, focusing in-depth upon an especially successful program, with the objective of identifying the key reasons for the program’s success.

The “Prison Entrepreneurship Program” (“PEP”) was established in Houston, Texas in 2004. Its mission statement reads:

*To stimulate positive life transformation for executives and inmates, uniting them through entrepreneurial passion, education and mentoring.*

and the “Who We Are” statement reads:

*We were murderers. We were gang leaders. We were drug dealers. We are executives. We are MBAs. We are pastors. We are professionals.* ([www.prisonentrepreneurship.org](http://www.prisonentrepreneurship.org), 2012)

It is fair to state that PEP has been an innovator in the field of re-training prison inmates for both employment and self-employment upon leaving prison.

## A Successful Program

By any measure, PEP is a successful program. From its beginnings in 2004 through 2011, success has grown upon success:

- In 2011, 131 PEP graduates were released from prison.
- In 2011 over 65% of these graduates moved into PEP transition homes.
- In 2011, these transition homes maintained occupancy rates of more than 85%.
- For the three years ending 2011, the PEP recidivism rate dropped to less than five percent (the rate of those returning to prison after release). This compares to a Texas state-wide average of about 25%.
- In Texas, the annual cost of incarcerating a man is about \$21,390. Lower recidivism thus results in lower costs to the taxpayer. For every two hundred PEP graduates, the state achieves costs savings of almost \$10 million. These are only the saving in state expenditures; they do not include the costs to the public of the crimes these released inmates might otherwise commit.
- PEP operates with zero public funding; all revenues derive from private sources.
- PEP graduates contribute about \$7000 per year in payroll, sales, income and other taxes.
- Over the entire 2004-2011 time period, PEP’s more than seven hundred graduates have launched more than one hundred businesses.

In 2012, PEP expects to spend approximately \$2 million in non-governmental funds to graduate nearly two hundred men from its in-prison program (PEP, 2011).

### **Keys to Success**

Analysis of PEP's programs, along with interviews and correspondence with key executives of PEP, leads to an understanding of the key reasons for the successful performance record of the program (Gregg, 2012; Smith, 2012a, 2012b). These reasons fall into two basic categories: the *Process* and the *Values*.

PEP's *process* involves a more complete and complex system and structure than most of the other programs in the United States having similar objectives. In particular, the PEP training and support programs take place both *inside* and *outside* the prisons.

### **Within The Prison**

#### *Participant Selection*

Applicants for the program are recruited from throughout the Texas men's prison system – more than 60 prisons. After intense screening, selected pre-release inmates are transferred to one of two prisons where PEP operates. Most selected inmates are either drug dealers or violent felons; most are repeat offenders; they average a ninth-grade education.

#### *PEP Boot Camp*

Upon selection and transfer to the PEP facility, inmates participate in a four-month program of business education. The PEP instructional and support staff includes corporate executive volunteers and both students and alumni of top MBA programs. The inmate students receive a rigorous high-level business education, including, for example, the construction of detailed pro-forma financial statements and complex financial management techniques. They take more than 40 exams during the program, and they interact with more than 100 top-level business executives over the four months. The final exam consists of a 30-minute oral business plan presentation in front of a judging panel of CEOs and venture capitalists from across the nation.

#### *Prep Class*

In addition to the Boot Camp, a three-month curriculum concentrates on character development. The focus here is on the person's attitudes and behavior rather than on business administration function.

#### *Toastmasters*

Still another component of the total in-prison curriculum gives the inmate participants a structured method to learn how to make effective oral presentations.

#### *Business Plan Competition*

Each of the above components of the PEP in-prison curriculum leads to the development of an individual business plan competition. PEP instructors, mentors, and other external executives judge the presentation of the business plans.

#### *Family Reunification Program*

To develop and provide support for the program's inmates, family members are encouraged and assisted in visiting the prisons, and especially in attending the PEP graduation ceremonies. In 2011, nearly four hundred participants' relatives attended these ceremonies, providing crucial support to the graduates.

## Out of Prison

### *Transition Homes*

As noted earlier, about 65% of PEP's 2011 graduates moved into transition homes operated by PEP. These "half-way house" type homes provide the living environment and staff support which is crucial to maintain the participants' learning and developed value system.

### *Post-Prison Entrepreneurship School*

Upon release from prison, participants are required to enter the program's "Entrepreneurship School" and complete a minimum of 20 workshops to further prepare them for self-employment and entrepreneurship. These workshops, both in the classroom and on the web, are hosted by various graduate schools of management, and utilize the universities' professors along with business executives and MBA students.

### *Executive Mentoring*

PEP staff and executive volunteers maintain close contact with program graduates. Participants receive pro bono consultations for everything from negotiation, marketing, web development, portfolio management, and taxation. These contacts may also provide business opportunities for the graduates' nascent businesses.

### *Start-Up Funding*

The program provides a \$500 stipend for all graduates to assist in covering start-up costs, and more importantly exposes these graduates to a network of accredited angel investors who are closely connected to the program and are ideologically committed to the program's objectives.

Almost all PEP graduates obtain employment quickly – 70% are employed within 30 days after release from prison and 100% are employed within 90 days. The average starting wage in 2011 was \$9.51 an hour. This is about 80% of the median per capita cash income for the state ([www.census.gov](http://www.census.gov), 2012). Of course, with a PEP program focus on entrepreneurship and self-employment, a graduate's initial employment may constitute a rolling start toward self-employment, with such self-employment being part-time during employment and eventually constituting full-time self-employment and business ownership.

### *Values*

While PEP's key executives believe that their within-prison and out-of-prison programs and curricula are central to their success, they also believe very strongly in the importance of the *values* that PEP instills. Thus programs' broad curricula extend well beyond the basic skills and methods of business administration. Hope and accountability are central to the program too.

In particular, PEP's total program rests upon the concept of the "Alternative Peer Group" model, often utilized in treating troubled teenagers ([www.alternativepeergroup.org](http://www.alternativepeergroup.org), 2012; Epple & Romano, 1998; Evans, Oates & Schwab, 1992; Morrison & Bailey, 2011). PEP's total program works to replace the inmate's former "peer group," one that offered positive reinforcement for criminal and other anti-social behavior, with a new and more positive community and peer group, one that fosters and reinforces a new set of values conducive to a productive life which contributes to society.

## Community Support

An especially interesting aspect of PEP's success story is that it takes place in the state of Texas, one of the more "conservative" states in the Union. How can a seemingly "progressive" organization such as PEP thrive and succeed in Texas?

First of all, it is important to understand that PEP receives no funds from any governmental agencies in Texas or beyond. Funding derives from private charitable foundations, individuals and corporations. Because no taxpayer dollars are used to support PEP's programs, and because the facts and statistics of PEP's highly successful outcomes are strongly and effectively publicized by PEP, community support is very positive. A second major factor for community support in a conservative state such as Texas is that PEP's programs are highly value-oriented and therefore quasi-faith-based. Although PEP is not formally a faith-based organization, "Judeo-Christian principles" underlie the *values* components of its programs:

*We believe that values-based personal transformation is required for people to stay out of prison. We do not know of a better catalyst for transformation than God, and participants desiring to pursue their walk with God are encouraged to do so, though no one is required to do so. Spiritual teaching on topics such as generosity, obedience, integrity and purity is a vital part of PEP.*

([www.prisonentrepreneurship.org](http://www.prisonentrepreneurship.org), 2012)

Similar to Alcoholics Anonymous' "Twelve Traditions" which include reference to "a loving God," PEP has "Ten Driving Values." And still another basis for community support in Texas is that a "conservative" case can be made for re-entry programs such as PEP's. Many American conservative leaders see re-entry programs as more logical and effective than a "lock them up and throw away the key" approach to criminal justice. With a focus on cost-benefit ratios and reducing the soaring costs to the states of incarceration, the argument is made that criminal justice reform can reduce crime, reduce costs, reform offenders and protect communities. This conservative philosophy is being promulgated by a variety of groups, such as "Right on Crime" ([www.rightoncrime.com](http://www.rightoncrime.com), 2012).

### Conclusion

The highly successful performance record of the Prison Entrepreneurship Program proves that this program, and many other comparable programs around the United States, has the potential to significantly reduce inmate recidivism and add value to the local economy, in a very cost-beneficial manner.

Yet some prisoner re-entry programs are more successful than others, and this analysis of PEP provides a variety of specific keys to the success of such programs. Organizations in other locations in the United States, with similar objectives, can learn from PEP's experiences and programs, adapting them as needed for their specific situations, constraints, and objectives.

### References

- Epple, D. & Romano, R. (1998). Competition between private and public schools, vouchers, and peer-group effects. *The American Economic Review*, 88(1), 33-62.
- Evans, W., Oates, W. & Schwab, R. (1992). Measuring peer group effects: A study of teenage behavior. *The Journal of Political Economy*, 100(5), 966-991.
- Gregg, J. (2012). Chief Development Officer, PEP. Correspondence, May.
- Morrison, C. & Bailey, C. (2011). The alternative peer group: A recovery model for teens and young adults. *Recovery Today Online*, March, at [www.recoverytoday.net](http://www.recoverytoday.net), accessed May 10, 2012.
- PEP (2011). *Prison Entrepreneurship Program 2011 Annual Report*. April 15.
- Sonfield, M. (1992). From inmate to entrepreneur: A preliminary analysis. *Proceedings*, Small Business Institute Directors Association National Conference, 39-44.
- Sonfield, M. (2008). Entrepreneurship and prisoner re-entry: The development of a concept. *Proceedings*, Small Business Institute National Conference.

- Sonfield, M. (2009). Entrepreneurship and prisoner re-entry: A role for collegiate schools of business. *Small Business Institute Journal*, 4, 65-81.
- Sonfield, M. & Barbato, R. (1994a). Testing prison inmates for entrepreneurial aptitude. *Proceedings*, Small Business Institute Directors Association National Conference.
- Sonfield, M. & Barbato, R. (1994b). Testing prison inmates for entrepreneurial aptitude in comparison to other groups. *Journal of Small Business Strategy*, 2, 45-51.
- Sonfield, M., Lussier, R. & Barbato, R. (1999). New directions in the analysis of prison inmates' entrepreneurial aptitude. *Proceedings*, Small Business Institute Directors Association.
- Sonfield, M., Lussier, R. & Barbato, R. (2001). The entrepreneurial aptitude of prison inmates and the potential benefit of self-employment training program. *Academy of Entrepreneurship Journal*, 7(2), 85-94.
- Smith, B. (2012a). Correspondence, May.
- Smith, B. (2012b). CEO, PEP. Telephone interview, May 7.
- [www.alternativepeergroup.org](http://www.alternativepeergroup.org) (2012). Accessed May 11.
- [www.census.gov](http://www.census.gov) (2012). Accessed May 10.
- [www.prisonentrepreneurship.org](http://www.prisonentrepreneurship.org) (2012). Accessed May 10.
- [www.rightoncrime.com](http://www.rightoncrime.com) (2012). Accessed May 11.

# **Evaluating the Effects of Business Pre-Planning Coursework on Student Entrepreneurial Intentions**

Brittany James, University of Arkansas Little Rock  
Joseph Bell, University of Arkansas Little Rock

## **Abstract**

The following research analysis evaluates how a business-planning course affects student entrepreneurial intentions before and after coursework completion. Data is collected using a survey issued to students, designed to address various aspects of entrepreneurial intentions. Students completed a pre-course and a post-course survey and submitted the completed survey to the instructor at the conclusion of the course.

This study provides initial evidence that perceptions of the derived effect of entrepreneurship education are positively related to entrepreneurial self-efficacy. That is, perceived competencies indirectly influence intentions to start a new business through the mediating role of entrepreneurial self-efficacy (Zhao et al., 2005). This analysis seeks to address two primary aspects of the coursework: the student's attitude toward the success of the new business venture chosen, and the student's attitude toward pursuing or acquiring a new business, before and after the completion of the course. This analysis is used to identify and understand factors associated with entrepreneurial students' decisions to pursue an entrepreneurial career. This information is important particularly to curriculum designers and policy makers if the intention of including entrepreneurship studies on university curricula is to augment post education incidence of entrepreneurship. Results from the study will be presented in this evaluation summary.

## **Introduction**

When contemplating one's career choices, entrepreneurship is considered one of the most risky and unstable choices one can make (Campbell, 1992). As an entrepreneur, one is often faced with everyday work and life situations with a continuous increase in levels of uncertainty, difficulties, failures, and frustrations directly associated with the process of new venture creation (Academy of Entrepreneurship Journal, Volume 13 Number 2, 2007). It seems as if one would hesitate to consider an entrepreneurial career feeling less than confident to perform the necessary tasks demanded by the creation of his or her own business venture.

Intentions are conceived as immediate antecedents of actual behavior (Ajzen, 1991). Intention-based models have attracted much attention of researchers as they offer a great opportunity to increase our understanding and predictive ability for entrepreneurship (Krueger, Reilly, and Carsrud, 2000). Early research concentrated on psychological factors. While this research did not produce a typical entrepreneurial profile, it highlighted several significant influences associated with successful entrepreneurship. Among these factors are: a high need for achievement, a desire for autonomy, a proclivity for moderate risk taking, aggressive competitiveness, an internal locus of control and a flair for innovation (Gartner, 1989; Reynolds, 1995; Timmons, 1999; Timmons and Spinelli, 2004). Existing literature has shown that predicting entrepreneurial behavior by modeling personality or demographic characteristics results in a diminutive explanation of entrepreneurial intentions, relying on the assumption that individuals who have similar characteristics to a typical entrepreneur would behave entrepreneurially (Buelens, Izquierdo, 2008). The result of Ghent University's Department of Management and Entrepreneurship study of entrepreneurship and the effect of entrepreneurial intentions through its impact on attitudes and self-efficacy, provides initial evidence that perceptions of the derived effect of entrepreneurship education are positively related to entrepreneurial self-efficacy (Buelens, Izquierdo, 2008). That is, perceived competencies indirectly influence intentions to start a new business through the mediating role of entrepreneurial self-efficacy, which is consistent with previous research (Buelens, Izquierdo, 2008).

There are several conceptual models of entrepreneurial intentions in literature (Shapero and Sokol, 1982; Bird, 1988; Krueger and Carsrud, 1993, Krueger and Brazeal, 1994; Davidsson, 1995; Reitan, 1996; Autio, 1997; Audet, 2000), but as Peterman and Kennedy (2003) and Krueger, Reilly and Carsrud (2000) have pointed out, there is little difference in the approaches of these models. By and large, they are all founded on Azjen's (1987, 1991) Theory of Planned Behavior.

Azjen's (1987, 1991) Theory of Planned Behavior (TPB) maintains that there are three predictors of intention: attitude toward the behavior, subjective norms and the degree of perceived behavior control. Attitude toward a behavior is a reflection of the individual's appraisal of the behavior. The appraisal may be placed along a continuum running from favorable to unfavorable. According to the theory, the more favorable the appraisal the greater the intention. The second predictor, subjective norms, refers to the degree to which family, friends, peers and society at large expect or pressure the individual to perform the behavior in question. In terms of the present study, the expectation is invariably linked to the prestige and respect accorded to entrepreneurship as a career choice by society (Audet, 2004). The TPB model suggests that the greater the expectation or pressure, the greater the gravitation toward the behavior.

A primary reason to undergo entrepreneur class coursework is to better understand what entrepreneurial studies are as well as to explore the full definition of an entrepreneur. Understanding these two important aspects of this chosen career path is the key to determining whether or not one feels prepared to embark on such an uncertain endeavor. This coursework is designed to demonstrate how to respond proactively to opportunities and threats presented by their challenging environments.

The outcome of this student analysis will serve as an evaluation of the confidence level of future entrepreneurs before completing the given coursework compared to the confidence level of future entrepreneurs after completing the given course work, in attempt to determine the students' reason for undergoing the course as a part of a college degree plan. The survey questionnaire was designed to evaluate the confidence level of each student on their decided new venture project idea as well as their future entrepreneurial intentions.

### **Methodology**

Because our focus of this study was to understand a potential entrepreneurial student's reason for including such coursework in one's college curriculum as well as one's attitude toward new venture before and after coursework completion, our test sample needed to include students currently enrolled in an entrepreneurial course. Due to its relevance and ease of accessibility, we have structured our sampled data from the students enrolled in the New Venture Creation course at the University of Arkansas at Little Rock, Donald W. Reynolds Center for Business and Economic Development during the 2012 spring semester. Data collected from this study will be valuable in helping the researchers plan future course material. Understanding the students' responses to the survey questionnaire will aid the researchers in optimizing the long-term effectiveness of the coursework provided.

Our test sample consists of thirteen of the total eighteen students enrolled in the New Venture Creation course for the 2012 spring semester. Participation in the survey study was strictly voluntary and potential survey respondents were assured of confidentiality and anonymity. Participants were also informed that no survey information would be reviewed until after final course grades had been formally submitted. No incentives of any kind were offered to the survey participants for their participation in the survey. The researchers were unaware of the identities of the respondents to this study.

The researchers designed a survey questionnaire consisting of two sections: a pre-course completion questionnaire to be completed once a concept (idea) was identified, but before beginning any further course work. A post-course completion questionnaire was completed at the conclusion of the course. At the beginning of the course, students were issued both the pre-questionnaire and post-questionnaire and asked to only complete the first section.

The survey consisted of items that covered gender, race, business owners/non business owners, age, and current grade point average. Other items included in the survey covered the source of idea for the business plan, perceived future success of the idea, willingness to pursue idea after course completion, student perception of the business planning process, ability of the venture to raise capital to start the business, attitude of ability to gain investment money from federal and/or state government, interest in starting or acquiring a new business immediately and/or within the next five to ten years, and interest in starting or acquiring and building a high growth (20% or more annual growth year after year within the next five to ten years).

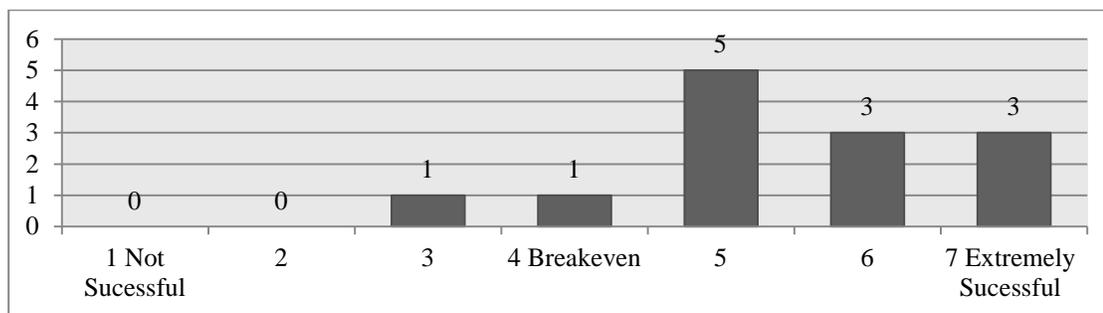
Our thirteen survey participants include eleven undergraduate students and two graduate students. Among these are nine men and four women. The ethnicities of our participants include eight Caucasian students, two African American students, two Asian or Pacific Islander students, and one no answer. Three of our thirteen participants had previously owned or currently own their own business. Of our thirteen participants, three worked full-time (more than 36 hours per week), five worked part-time, and five were not currently working.

### Discussion

The following data represents the results of the questions presented to the survey participants in a pre-coursework questionnaire. Question one of our questionnaire asks for the source of the idea for each group's business plan. Answer options include:

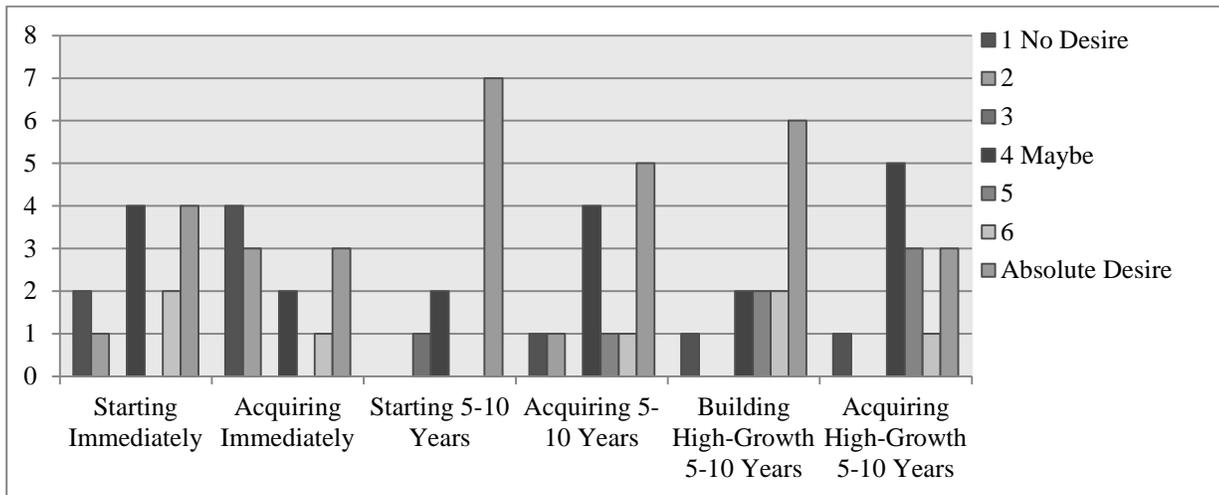
- Group brainstorming exercise - 3
- Work-related - 2
- Family member - 0
- Friend - 0
- Just came to me - 2
- Other - 0
- Another group member came up with the idea - 6

Question two of the questionnaire asked the participants to rank how successful he/she perceived the business idea to be using a seven-point like scale with one being "not successful" and seven being "extremely successful". The following bar graph illustrates the student response:



Of the thirteen survey participants, ten were willing to pursue the chosen business idea after course completion and three were not. All thirteen participants believed this business-planning course would be a useful tool for them after graduation.

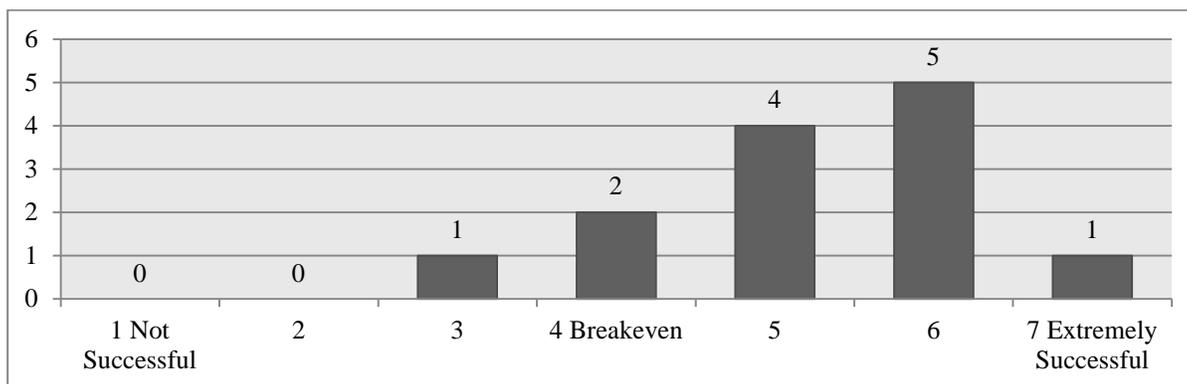
Questions seven through twelve asked the participants to rank their level of interest in starting or acquiring a new business immediately following the completion of the business planning course, starting or acquiring a new business within five to ten years after completion of the business planning course, and starting or acquiring and building a company into a high-growth (20% or more annual growth year after year) within the next five to ten years after completion of coursework. Participants were asked to rank their interest one through seven, with one being “no desire” and seven being “absolute desire”. The following bar graph illustrates the student response:



With the given information, it seems reasonable to assume that most of the students enrolled in the New Venture Creation class have intentions to start or acquire a new business and even building a high growth business before completing the coursework, leaving one to conclude that this is the purpose of enrolling in the class. Before completing the business planning process for the chosen business idea, most of the survey participants have a positive outlook on the success of the business and are willing to actually pursue the idea after the course has ended.

The following data represents the student response of the questions presented to the survey participants in a post-coursework completion questionnaire. Most of the questions are the same or similar to the questions asked in the pre-coursework completion questionnaire with a few variances as it relates to the study.

Question one asked the participant to rank how successful he/she perceived the business idea on a seven point-like scale, one being “not successful” and seven being “extremely successful”. The results are as follows:

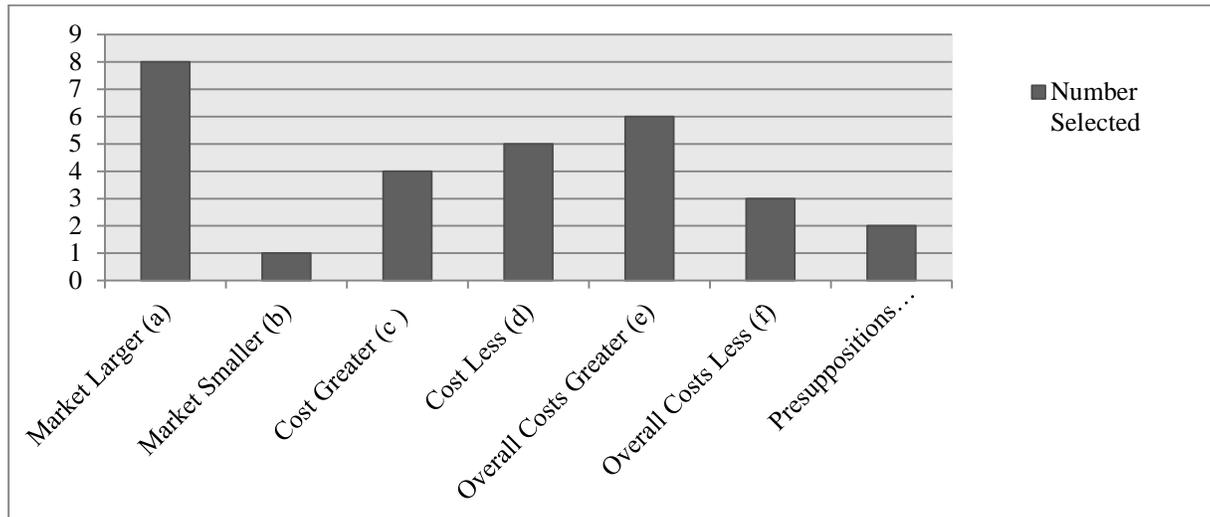


After completion of the business-planning coursework, seven of the thirteen survey participants were willing to pursue the chosen business idea and six were not. All thirteen participants still believe the business planning process will be a useful tool for them after graduation.

Question six of the post-coursework completion questionnaire asked participants what he/she learned about the chosen business idea while constructing the business plan and asked participants to select all that apply from the following choices:

- a. The market was larger than expected.
- b. The market was smaller than expected.
- c. The cost of the product was greater than expected.
- d. The cost of the product was less than expected.
- e. The overall costs of the project were greater than expected.
- f. The overall costs of the project were less than expected.
- g. The planning process validated all presuppositions.

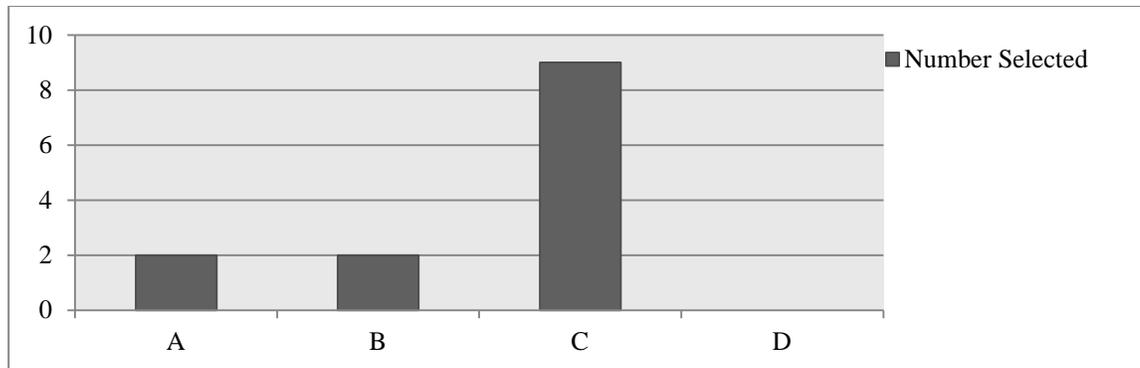
The following bar graph illustrates the student response:



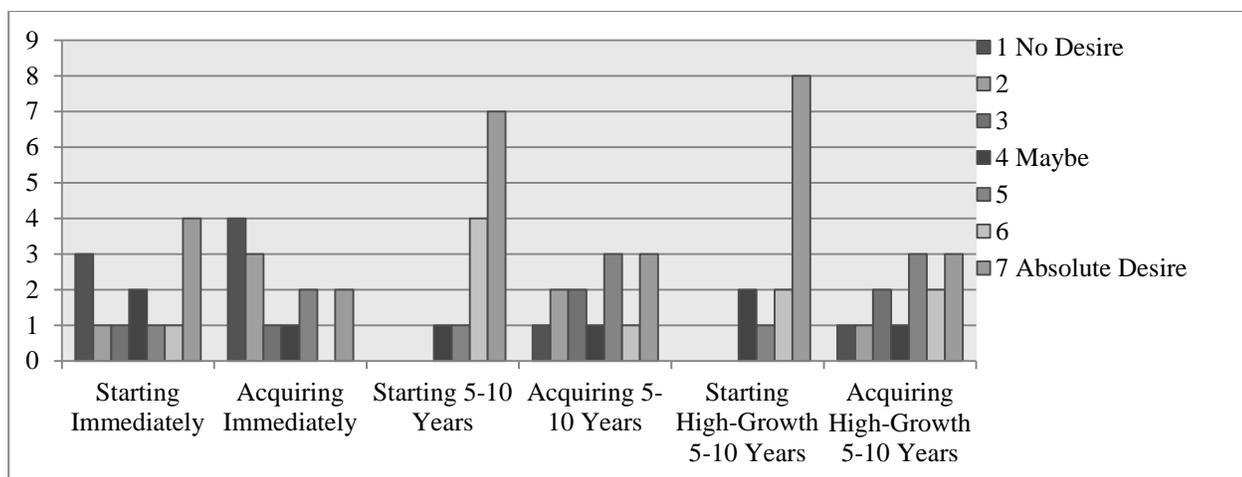
Question seven asked participants how the business planning process changed his/her perception of the chosen business idea given the following choices:

- a. I thought the idea was feasible before the planning process began but found it to not be feasible by the end of the planning process.
- b. I thought the idea was not feasible before the planning process began but found it to be feasible by the end of the planning process.
- c. I thought the idea was feasible before the planning process began and found it to be feasible by the end of the planning process.
- d. I thought the idea was not feasible before the planning process began and found it to not be feasible by the end of the planning process.

The following bar graph illustrates the student response:



Questions eight through thirteen asked participants to rank their level of interest in starting or acquiring a new business immediately following the completion of the business planning course, starting or acquiring a new business within five to ten years after completion of the business planning course, and starting or acquiring and building a company into a high-growth (20% or more annual growth year after year) within the next five to ten years after completion of coursework. Participants were asked to rank their interest one through seven, one being “no desire” and seven being “absolute desire”. The following bar graph illustrates the student response:



With the given information, it seems reasonable to conclude that the New Venture Creation coursework has a significant effect on the student’s attitude towards the practice of entrepreneurship.

### Implications for Future Research

Future research will involve additional data collection along with assessment and data analysis of the survey results. The analysis will attempt to determine parallel relationships and to gain a better understanding of entrepreneurial intentions and the affect of business planning coursework on those intentions. The authors’ intent in administering the survey was to evaluate the affect of entrepreneurial course work on the class participants’ perception of the viability of entrepreneurial concepts.

There is significant potential, as the number of completed surveys increases, to assess the data across a number of regression variables. For example, other researchers have investigated factors that have the potential to account for some of the variation in intention to opt for an entrepreneurial career such as

situational factors. Kennedy (2003) found significant statistical evidence of a moderating influence of envisaged unemployment and family commitments on entrepreneurial intentions (Byabashajja and Katono 2011). Another study conducted by Simon C. Parker of the University of Durham, United Kingdom measures the extent to which entrepreneurs rely on past experience when making decisions about their business ventures and to extent to which they utilize new information about their venture's performance to learn about their true (but unknown) abilities and trading environment. He suggests that knowing the extent to which entrepreneurs adjust their beliefs and so engage actively in learning is desirable for several reasons. First, such knowledge might help us to gauge how alert entrepreneurs are. Second, if entrepreneurs ignore or respond sluggishly to new information, that might hinder venture performance and ultimately the vitality of the economy as a whole. Third, a belief that entrepreneurs are unresponsive to market signals might encourage governments to devise policy interventions such as entrepreneur education and awareness programs (Sexton, 1997). Fourth, academies, practitioners and policy-makers might be interested in finding out whether particular entrepreneurial groups are more responsive to new information than others are. That might be valuable for targeting support programs more effectively. And Fifth, empirical findings about expectations adjustment might also improve our understanding of how rational entrepreneurs are. That might indicate the usefulness for entrepreneurship of models of non-algorithmic decision-making (Bygrave, 1993), over-optimism (De Meza and Southey, 1996), and bounded rationality—and so contribute to theory development in entrepreneurship too (Parker, 2006).

### **Conclusion**

The leading purpose of this study was to gain a better understanding of the intent of entrepreneurial students for enrolling in the New Venture Creation business-planning course and how the completion of this course affects the students' attitude and perception of an entrepreneurial concept and an entrepreneurial career. Some of the preliminary evidence from the survey supports other existing research such as Ghent University's Department of Management and Entrepreneurship study education and the effect of entrepreneurial intentions through its impact on attitudes and self-efficacy. This analysis addresses two primary aspects of the coursework: the student's attitude toward the success of the new business venture chosen, and the student's attitude toward pursuing or acquiring a new business, before and after the completion of the course. In doing so, researchers are able to identify and understand factors associated with entrepreneurial students' decisions to pursue an entrepreneurial career.

The information from this ongoing survey will provide the researchers affluent continuous research opportunities related to entrepreneurial intentions. With the information given and knowledge gained using this survey approach, researchers could potentially offer specific and essential coursework material for future entrepreneurial students. It will be interesting to carry this research further to enrich our understanding of the extent to which intentions are converted into entrepreneurial actions. This information will be beneficial for the collaboration of policy makers, entrepreneurship course designers, and instructors aiming to learn the extent to which reasons for not starting or delaying to start their own businesses are external or internal to the individual. For example, one intervening variable suggested by Shapero and Sokol is the individual's propensity to act. The general belief is that intentions lead to behavior (Ajzen, 1987, 1991; Bird and Vozikis, 1994) but it would be interesting to know what mediates or moderates this relationship.

### **References**

- Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, 50, 179-211.
- Audet, J (2000). Evaluation of two approaches to entrepreneurial education using an intentions based model of venture creation. *Academy of Entrepreneurship Journal*, 1(6), 57-63.

- Autio, E, R Keeley, M Klofsten and T Ulfstedt (1997). Entrepreneurial intent among students: Testing an intent model in Asia, Scandinavia and in the USA. *Frontiers of Entrepreneurship Research*. Wellesley, MA: Babson College.
- Bandura, A (1986). *Social Foundations of Thought and Action*. Englewood Cliffs: Prentice Hall. (1997). Self-efficacy: Toward a unifying theory of behavioral change. *Psychological Review*, 84, 191–215.
- Bird, B (1988). Implementing entrepreneurial ideas. The case for intentions. *Academy of Management Review*, 13, 442–454.
- Buelens, M. & Izquierdo, E. (2008). Competing Models of Entrepreneurial Intentions: *The Influence of Entrepreneurial Self-Efficacy and Attitudes*, 3, 19-20.
- Byabashajja, W. & Katono, I. (2011). The impact of college entrepreneurial education on entrepreneurial attitudes and intention to start a business in Uganda. *Journal of Developmental Entrepreneurship*. Vol. 16, No. 1 (2011) 127–144.
- Bygrave, W.D., 1993. Theory building in the entrepreneurship paradigm. *Journal of Business Venturing*, 8, 255 – 280.
- Campbell, C. A. (1992). A decision theory model for entrepreneurial acts. *Entrepreneurship Theory and Practice*, 17 (1), 21-27.
- Davidsson, P (1995). *Determinants of Entrepreneurial Intentions*. Paper presented at the RENT IX Workshop. November 23–24, Piacenza, Italy.
- De Meza, D., Southey, C., 1996. The borrower's curse: optimism, finance and entrepreneurship. *Economic Journal*, 106, 375–386.
- Krueger, N and DV Brazeal (1994). Entrepreneurial potential and potential entrepreneurs. *Entrepreneurship Theory and Practice*, 3(18), 91–104.
- Krueger, N. F., Jr., Reilly, M. D., & Carsrud, A. L. (2000). Competing models of entrepreneurial intentions. *Journal of Business Venturing*, 15, 411-432.
- Parker, S. C. (2006). Learning about the unknown: how fast do entrepreneurs adjust their beliefs? *Journal of Business Venturing* 21, 1-26.
- Peterman, NE and J Kennedy (2003). Enterprise education: Influencing students' perceptions of entrepreneurship. *Entrepreneurship Theory and Practice*. Winter, 129–144.
- Reitan, B (1996). *Where Do We Learn That Entrepreneurship Is Feasible, Desirable and/or Profitable?* Paper presented to the ICSB World Conference.
- Sexton, D.L., Upton, N.B., Waeholtz, L.E., 1997. Learning needs of growth-orientated businesses. *Journal of Business Venturing*, 12, 1–8.
- Shapero, A and L Sokol (1982). Social dimensions of entrepreneurship. In *The Encyclopedia of Entrepreneurship*, C Kent, D Sexton and K Vesper (eds.). Englewood Cliffs: Prentice-Hall, 72–90.
- Timmons, J (1999). *New Venture Creation: Entrepreneurship for the 21st Century*. Burr Ridge: Irwin.
- Timmons, J and S Spinelli (2004). *New Venture Creation: Entrepreneurship for the 21st v Century* (6th edition). Burr Ridge: Irwin.
- Zhao, H., Seibert, S. E., and Hills, G. E. (2005). The mediating role of self-efficacy in the development of entrepreneurial intentions. *Journal of Applied Psychology*, 90, 1265-1272.

# **Examining the Effectiveness of State Funded Angel Investor Tax Credits: Preliminary Empirical Analysis**

Monika Platek, University of Arkansas Little Rock  
James Wilbanks, University of Arkansas at Little Rock  
John Hendon, University of Arkansas Little Rock  
Joseph Bell, University of Arkansas Little Rock

## **Abstract**

Many states are issuing tax credits for angel investments in order to encourage economic growth and development. While this policy makes intuitive sense, there has been no systematic evaluation of the outcomes of these programs. This study is a first step toward empirically examining the effectiveness of angel investment tax credit programs. We utilize the Kaufman Entrepreneurial Activity Index as an outcome to measure the initial statewide impact of the introduction of angel tax credit programs. Initial results support the proposition that the introduction of angel tax credit programs does increase entrepreneurial activity on a state level.

## **Introduction**

Why should policy makers consider providing angel investment tax credits? The intuitive answer is to provide an incentive to increase early stage investment in high growth potential new ventures. This should in turn lead to the creation of higher paying knowledge based jobs and ultimately an increase in tax revenue. But this chain of events is based upon the assumption that angel investment tax credits lead to an increase in entrepreneurial activity. Therefore, research which investigates this linkage is needed.

The purpose of this paper is to empirically examine the relationship between angel tax investment credits and state level entrepreneurial activity. First, we review angel investment and the angel tax credit programs. Next we outline our proposed method for examining the relationship between angel investment tax credits and entrepreneurial activity. Then we report the results of these analyses. Finally, we discuss the findings and their implications for researchers, practitioners, and policy makers.

### *Angel Investors*

Both scholars and practitioners of entrepreneurship alike have been known to repeat the old saying that the first place to look for investors is the three F's: Family, Friends, and Fools. It has also been joked that angel investors did not receive their title because they are like angels helping entrepreneurs to finance their emerging businesses, but instead because they are more likely to receive their return on investment in the afterlife. These two rather cynical epigrams highlight two unique features of angel investment. First, seeking funding for start-ups and early stage ventures is both difficult and necessary for aspiring entrepreneurs and angel investors can fill that important need (Brinlee, Franklin, Bell and Bullock, 2004). Second, because angels provide equity investments as opposed to loans, they assume a great deal of risk, and therefore require high returns from their successful investments (Bell, 2007). In order for policy makers to provide incentives that will encourage greater investments it is necessary to understand the nature and motivations of angel investors in general.

Angel investors vary widely in the range of equity investments they provide to entrepreneurs who are launching, expanding, or acquiring a new business. Typically, angels provide equity investment which range from about \$25,000 to \$2,000,000. The angel will generally expect to receive their investment back with a significant return either through a share of a successful venture's profits, or through the company's eventual exit strategy, such as being acquired by a larger firm, or through an Initial Public Offering. While angel

investors may have many secondary motivations, such as the thrill of entrepreneurship, to support their local community, to search for a balanced investment portfolio, to remain engaged in the business community beyond retirement, or out of a desire to keep learning, their primary motivation is financial return (Bell, 2007). This leads to the idea that anything that policy makers can do to increase the likelihood of financial returns will encourage more investment. One method that many state lawmakers have attempted to increase financial incentives for angels is to provide them tax credits for their investments in new ventures within their states.

### *Angel Investment Tax Credits*

Hendon, Bell, Blair, and Martin (2012) found that more than 20 states offered angel investment tax credit programs for the purpose of increasing entrepreneurial activity. These programs varied widely in terms of the maximum credit allowed from a low of 10% in Vermont to a high of 100% in Hawaii. Additionally, some states impose a cap on the total amount available for the tax credit, either per investment by company, or as a total for the state itself.

The authors (Hendon, et al., 2012) noted that two other key factors on which these equity tax credits varied by state was whether or not they were refundable, transferable, both, or neither. Refundable tax credits are those for which the investor can receive cash back from the state government if the credit exceeds the amount owed to the state in income tax for the year. Transferrable tax credits are those for which credits for out of state investors in partnerships with in-state investors can be transferred such that the in-state investor can receive up to 200% in tax breaks for angel investing for a tradeoff of equity in the company (Hayter, 2008).

In addition to the variance in the manner in which the angel tax credit programs are implemented from state to state, there is also a great deal of difference in the way these states attempt to measure the outcomes of these programs. For example, the New Mexico Development Department reported \$736,468 in new investment which they attributed to the Angel Investment Tax Credit (New Mexico Development Department, 2012). However, opponents of angel tax credits point out that it is difficult to determine how much of this amount would have been invested anyway without the program in place. The difficulty in providing quantifiable evidence of the outcomes of these programs has led to some policy makers questioning the need for these programs (Hendon, et al., 2012). Thus, the primary contribution of this study will be to provide a first step in the evaluation of evidence of the effectiveness of angel investment tax credit programs in terms of promoting entrepreneurial activity.

### **Methodology**

The data for the sample were collected from multiple sources. The data for angel investment tax credit incentives, which include all 50 states in the United States of America, were collected by systematic online search for information for angel investment tax credit programs. For each state, data were recorded for: 1) the status of their angel investment tax credit program or lack thereof; 2) the maximum credit % allowed; 3) whether or not the tax credits are refundable; and 4) whether or not the tax credits are transferable.

The data which were utilized as a proxy for *entrepreneurial activity* are publicly available from the website of the Ewing Marion Kaufman Foundation ([www.kaufman.org](http://www.kaufman.org)). The Kaufman Index of Entrepreneurial Activity (KIEA) has been capturing new business owners in their first month of significant business activity from 1996 to the present. The KIEA measures new business development across the country by tracking the percentage of adult, non-business owners that start businesses each month. The data are available by state by year, as well as in many other demographic categories (Fairlie, 2012). As of the time of this study, the data are publicly available for each of the 50 states for the years 1996 to 2011.

In addition to the data for state angel investment tax credit programs and entrepreneurial activity by state, data for the real annual GDP growth percentage for the nation were collected for the years 1996 to 2011 (The World Bank, 2012). This allows greater insight into the effectiveness of angel tax credits by allowing us to consider the national economy each year as we track the changes in entrepreneurial activity by state over time.

### Results

The general descriptive statistics for the sample are presented in Table 1. Thirty-one states have implemented Angel Investor Tax Credit Programs, and 29 are still in operation. Oklahoma's program expired on the first day of 2012 and Vermont's expired in 2008. New Mexico's program expired in 2011, but in 2012 it was extended to 2016 by unanimous vote in the New Mexico state legislature (NewMexicoVotes.org, 2012). Louisiana's program was also allowed to expire in 2009, but was reinstated in 2011 (Louisiana Economic Development, 2012). The maximum tax credit percentage of the 31 states ranged from 10-100% with a mean of 35% and a standard deviation of 18%. Three states, Maryland, Minnesota, and Nebraska offered refundable tax credits to angel investors. Five states, Arkansas, Hawaii, Kansas, Kentucky, and Maine offered transferable tax credits to angel investors.

Table 1: Study Overview Descriptive Statistics

|   |         |
|---|---------|
| Total Number of States That Have Attempted Angel Investment Tax Credit Programs               | 32      |
| Total Number of States That Have Angel Investment Tax Credit Programs in Operation as of 2012 | 30      |
| Maximum Credit %  |         |
| Range   | 10-100% |
| Mean  | 35%     |
| Standard Deviation  | 18%     |
| Total Number of States with Refundable Tax Credit Programs                                    | 3       |
| Total Number of States with Transferable Tax Credit Programs                                  | 5       |

The change in entrepreneurial activity for states with angel investment tax credit programs within the first two years of implementation are reported in Table 2. Of the 31 states which have implemented angel investment tax credit programs, 29 states have full data to compare entrepreneurial activity before and after implementation. North Dakota began their angel tax credit program in 1989 and Ohio began theirs in 1996. The Kaufman Organization began collecting data on entrepreneurial activity in 1996 and therefore data for 1988 and 1995 are unavailable to be used as controls to measure change for North Dakota and Ohio.

Table 2: Change in Entrepreneurial Activity after Angel Tax Program Introduction

|  |    |
|--|----|
| Number of States with an <u>Increase</u> in Entrepreneurial Activity within first two years of Program | 22 |
| Of these 22:   |    |
| Transferable   | 4  |
| Refundable   | 2  |
| Implemented during downturn in National GDP growth   | 8  |
| Number of States <u>Without Increase</u> in Entrepreneurial Activity within first two years of Program | 7  |
| Of these 7:  |    |
| Less than a year since program implementation  | 4  |
| Credit % less than or equal to 35  | 4  |
| Implemented during downturn in National GDP growth   | 7  |

Of the 29 states which implemented angel investment tax credit programs between 1997 and 2011, 22 (75%) of them displayed an increase in entrepreneurial activity within the first two years of the program. Of these 22 successful programs, 4 had the feature of being transferable, and 2 were refundable. Additionally, 8 of these states implemented their program during a slowdown in the national economy as measured by USA GDP per capita annual growth and still managed to demonstrate an increase in entrepreneurial activity. It should be noted that all 7 of the states which did not increase their entrepreneurial activity within the first two years implemented their programs during a downturn in the economy. Additionally, 4 of these 7 states implemented their program in 2011 and the data on entrepreneurial activity for 2012 is not yet available as of the time of this study. Therefore, they may still display an increase in entrepreneurial activity within the timeframe of the 22 successful states.

### **Discussion**

This purpose of this study was to empirically examine the relationship between angel tax investment credits and state level entrepreneurial activity. This answers the call in the literature to, “focus upon any identifiable impact that states may receive as a result of the credit” (Hendon et al., 2012). The results of this study support the theory that state angel investment tax credits influence state level entrepreneurial activity. Twenty-two out of 29 states which implemented an angel tax credit program displayed an increase in entrepreneurial activity within two years. Fifteen of the 29 states implemented their programs during times of economic slowdowns and 8 of them increased in entrepreneurial activity in spite of this. All 7 of the states which did not see an increase in entrepreneurial activity launched their programs during economic slowdowns. It is quite possible that their economic situation would have been worse without the investment incentives provide by the angel tax credits, although at this time we do not have evidence either for or against this conclusion. We believe that this is the first study to date which systematically examines the outcomes of the angel tax credits as measured by entrepreneurial activity.

### **Implications**

One of the strongest arguments opposing tax credit programs is the lack of valid measures of effectiveness. This study is a first step toward objectively measuring the outcomes of angel investment tax credits. The results suggest that the tax credit programs can increase entrepreneurial activity. This has significant implications for policy makers because entrepreneurship creates new businesses and new jobs, increases technological competition, and improves the productivity of the state (Holden, 2007).

### **Future Research**

Future research should expand upon this study and further examine the link between angel tax credits and entrepreneurial activity. Additional outcome variables such as new jobs, new firms, increased investment, and creation of high growth potential ventures should be investigated. The impact of the angel tax credits upon states in time of economic downturn should be examined as well. Structural equation modeling and hierarchical time series regression analyses which control for the economy may provide new insights and could provide stronger evidence of the effectiveness of the angel investment tax credit programs.

### **Conclusion**

This purpose of this study was to empirically examine the relationship between angel tax investment credits and state level entrepreneurial activity. The results support the theory that state angel investment tax credits influence state level entrepreneurial activity. This is important because lawmakers are currently debating whether these programs are worth the cost in lost tax revenue. While more research is needed in this area, this preliminary study suggests that the angel tax credits do provide an incentive to increase early stage investment in high growth potential new ventures, which should in turn lead to the creation of higher paying knowledge based jobs and ultimately an increase in tax revenue.

## References

- Alario, Appel, Cheek, Dorsey, Gautreaux, B., Gautreaux, N., Herbert, Jackson, Long, Morrell, Murray, Riser, Shaw, & Smith. (2010). New Orleans Business Org. Urges Support For Louisiana Angel Fund Bill. <http://www.bayoubuzz.com/Louisiana-Local-News/louisiana-angel-fund.html> retrieved March 2, 2011
- Angel Tax Credit. (2010). Positively Minnesota: Department of Employment and Economic Development. [http://www.positivelyminnesota.com/Business/Financing\\_a\\_Business/DEED\\_Business\\_Finance\\_Programs/Angel\\_Tax\\_Credit.aspx](http://www.positivelyminnesota.com/Business/Financing_a_Business/DEED_Business_Finance_Programs/Angel_Tax_Credit.aspx) retrieved March 2, 2011
- Angel Venture Capital Credit. Vermont State Law. The Vermont Statutes Online. Title 32: Taxation and Finance. Chapter 151: Income Taxes. 32 V.S.A. § 5930v. Title 32: Taxation and Finance, Chapter 151: INCOME TAXES, 32 V.S.A. § 5930v. Angel venture capital credit, <http://www.leg.state.vt.us/statutes/fullsection.cfm?Title=32&Chapter=151&Section=05930v> retrieved March 2, 2011
- Belk, C. (2010). 25% Tax Credit in the Works for Angel Investors. <http://thefederalcircle.com/tax-credit-for-angel-investors-in-the-works/> retrieved March 2, 2011
- Bell, J. R., (2007) *Finding an Angel Investor in a Day: Get it Done Right, Get in Done Fast!* Palo Alto, California: The Planning Shop.
- Brinlee, J., Franklin, G., Bell, J. and Bullock, C., “Educating Entrepreneurs on Angel and Venture Capital Financing Options”, *Journal of Business and Entrepreneurship*, 16(2) October 2004.
- Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. (2003). *Applied Multiple Regression/Correlation Analysis for the Behavioral Sciences*. 3rd Ed. Mahwah, NJ: Laurence Erlbaum Associates.
- Doyle, J. (2003). Grow Wisconsin Initiative. <http://www.wisgov.state.wi.us/docview.asp?docid=707&locid=19> retrieved March 2, 2011
- Dougherty, C. (2010). States Move to Cut Incentives to Business. *Wall Street Journal (Online)*.
- Fairlie, R. W. (2012). Kauffman Index of Entrepreneurial Activity: 1996-2011. [http://www.kauffman.org/uploadedFiles/KIEA\\_2012\\_report.pdf](http://www.kauffman.org/uploadedFiles/KIEA_2012_report.pdf) retrieved on October 4, 2012.
- Hayter, C. (2008). State Strategies to Promote Angel Investment for Economic Growth. National Governors’ Association: Center for Best Practices. <http://www.nga.org/portal/site/nga/menuitem.9123e83a1f6786440ddcbeeb501010a0/?vgnextoid=64c5dd9ebe318110VgnVCM1000001a01010aRCRD&vgnnextchannel=4b18f074f0d9ff00VgnVCM1000001a01010aRCRD> retrieved March 2, 2011
- Hendon, J. R., Bell, J. R., Blair, B., & Martin, D. K. (2012). State-Funded Angel Investor Tax Credits: Implementation and Perceived Effectiveness in a Sample of States within the United States. *Journal of Entrepreneurship and Public Policy*, 1, 50-62.
- Holden, J. (2007). Entrepreneurship Aids the Economy. Originally published in U.S. State Department’s *Principles in Entrepreneurship*. <http://www.america.gov/st/business-english/2008/May/20080603233010eaifas0.8230554.html> retrieved March 2, 2011
- Lee, T. (2010). Angel Investment Tax Credit in Minnesota: The Burden of Proof. *MedCity News*. <http://www.medcitynews.com/?s=Angel+Investment+Tax+Credit+in+Minnesota%3A+The+Burden+of+Proof> retrieved March 2, 2011
- Lee, T. (2010). Minnesota Passes Historic Angel Tax Credit. *MedCity News*. <http://www.medcitynews.com/2010/03/minnesota-legislature-passes-historic-angel-tax-credit/> retrieved March 2, 2011
- Lee, T. (2010). Shocker! Angel Investment Tax Credit Drive in Minnesota Hits Snag. *MedCity News*. <http://www.medcitynews.com/?s=Shocker%21+Angel+Investment+Tax+Credit+Drive+in+Minnesot+a+Hits+Snag> retrieved March 2, 2011

- Louisiana Economic Development (2012). Angel Investor Tax Credit. <http://www.louisianaeconomicdevelopment.com/incentives--programs/angel-investor-tax-credit.aspx#bn> retrieved September 13, 2012.
- National Governors' Association: Center for Best Practices. (2008). Wisconsin Boosts Business Development Incentives. *Front and Center*. <http://www.nga.org/portal/site/nga/menuitem.9123e83a1f6786440ddcbeeb501010a0/?vgnextoid=e0d4bbc2bf287110VgnVCM1000001a01010aRCRD&vgnnextchannel=4b18f074f0d9ff00VgnVCM1000001a01010aRCRD> retrieved March 2, 2011
- New Mexico Development Department (2012). 3<sup>rd</sup> Quarter FY2012 Performance Measures Report. <http://gonm.biz/uploads/files/quarterlyReportFY12Q3Final.pdf> retrieved October 2, 2012.
- NewMexicoVotes.org (2012) 2012 House Bill 123: Extend Angel Investment Tax Credit. <http://www.newmexicovotes.org/2012-HB-123> retrieved October,4, 2012
- Shane, S. (2005). Angel Investing: A Report Prepared for the Federal Reserve Banks of Atlanta, Cleveland, Kansas City, Philadelphia, and Richmond.
- Shaw, C. (2010). House Research Report Questions Usefulness of Investor Tax Credit. *Politics in Minnesota*. <http://politicsinminnesota.com/blog/2010/02/angel-credit-backers-thrown-for-a-loop-house-research-report-questions-usefulness-of-investor-tax-credit/> retrieved March 2, 2011
- Sohl, J. (2008). Angel Investors Becoming More Cautious in Uncertain Economy. [http://wsbe.unh.edu/files/2007\\_Media\\_Release\\_-\\_Lori\\_Wright.pdf](http://wsbe.unh.edu/files/2007_Media_Release_-_Lori_Wright.pdf) retrieved March 2, 2011
- The World Bank, (2012). GDP per capita annual growth percentage. <http://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG/> retrieved October, 2, 2012
- Williams, J. (2008). Tax Credits and Government Incentives for Angel Investing in Various States. <http://www.angelcapitalassociation.org/data/Documents/Public%20Policy/State/Tax%20Credits%20-%20Jeffrey%20Williams.pdf> retrieved March 2, 2011
- Wisconsin Department of Commerce. (2003). Act 255. <http://commerce.wi.gov/Act255/> retrieved March 2, 2011

# Family Business in South America: A Generational Comparison

Matthew Sonfield, Hofstra University  
Robert Lussier, Springfield College

## Abstract

This investigation compared first-, second- and third-generation family businesses in a sample of 210 family businesses in Argentina and Peru. Although prior research would predict that some significant generational differences would have been found, only minor differences were identified and none of the 11 tested hypotheses were fully supported. Thus, as these South American family firms move from first to second to third generation, most managerial characteristics, activities and practices remain the same. Implications are presented for theory development, for further research, and for those who manage or advise family businesses.

## Introduction

Family firms constitute a highly important component of most countries' economies, and are the most common form of business organization (Nordqvist & Melin, 2009). In the United States, an estimated 80 percent of the total 15 million businesses are family businesses (Carsrud, 1994; Kets de Vries, 1993). Family businesses contribute more than 50 percent (McCann, Leon-Guerrero & Haley, 1997) to as high as 60 percent (Bellet et al., 1995) of the total Gross National Product, 50 percent of employment (Morris, Williams, Allen & Avila, 1997), and have higher annual sales than non-family businesses (Chaganti & Schner, 1994). Estimates classify 35 percent of *Fortune 500* firms as family owned (Carsrud, 1994). Data from most other countries provide a similar picture (Eddy, 1996; Morck & Yeung, 2004). However, much of the family business literature, regardless of the country being investigated, is non-quantitative (Dyer & Sánchez, 1998; Litz, 1997) and family business articles have only recently begun to be published in broad-based academic business journals.

Drawing on data from 210 family firms in Argentina and Peru, this paper reports on an analysis of generational issues, thus expanding on earlier analyses by the authors in other areas. This paper 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

As an academic field of study, *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. Today, research in the field of family business has reached the threshold of true empirical understanding and theory development (Nordqvist & Melin, 2010).

A thorough analysis of all articles published in the first decade of *Family Business Review* by Dyer and Sánchez' (1998) 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 specifically describing the art of helping family businesses declined.

Still, 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 (Abdellatif, Amann & Jaussaud, 2010; Littunen & Hyrsky, 2000; Ward, 1986; Ward & Dolan, 1998; Zellweger, Eddleston & Kellermanns, 2010). 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 (and second) 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)? Furthermore, this current study focuses on two South American family firm data bases – from Argentina and Peru. As the authors' studies of family businesses in various countries progresses and expands, comparison might eventually be made between generational analyses in different geographical areas around the world.

For this research, a first-generation business 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 second- or third-generation company is defined as a firm in which the second or third generations of the family are also involved in the ownership and the management of the company. In either of these, 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 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.

Because this current research study utilizes a data sample from South America a brief discussion should be provided regarding the *international* dimensions of family business research. As discussed above, research with this focus is a rather recent phenomenon, with very few published academic articles prior to the late 1980's when the first dedicated academic journal, *Family Business Review*, was established. Most of the early family business research focused on family firms in the United States and the United Kingdom. Only more recently have researchers in other countries conducted family business research in their countries. To

give a few examples, recent studies have been conducted in Japan (Saito, 2008), Kenya (Kelly, Lewa & Kamaria, 2008), Malaysia (Wan & Wan, 2009), New Zealand (Nicholson, Shepherd & Woods, 2009), Spain (Perez & Puig, 2009), and Taiwan (Fu-Lai, 2009).

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 consultants who assist such firms.

### South American Family Business Context and Literature Review

Since the 1990s, South America has experienced great economic development, with Argentina and Peru, and several other countries on the continent, having economic growth of over 8% per year, relying heavily on the exporting of goods. While Europe and the United States have been mired in economic stagnation, Latin America has enjoyed a strong recovery, having for the most part sailed through the recession without lasting damage. Boosted by capital inflows, by record prices for commodity exports, by sound policies and by a heady expansion in domestic credit, the region saw economic growth of 6% in 2011 and is on course to notch up close to 5% in 2012. See Table 1. (CIA, 2012; Economist, 2012).

#### Argentina

Family businesses are a highly important component of worldwide economies, and they are considered to be a determinant of business development and to the contribution of employment generation. However, only minimum research has been conducted on family businesses, and the role it plays in Argentinean business. Niethardt (2007) “...there are no significant statistical samplings that have been conducted on family businesses in the last twenty years...” D’Annunzio and Corral (2007) and Rábago, D’Annunzio, Monserrat and Barberón (2009) concluded that there is a need for further family business research in Argentina.

Table 1

| Country   | Annual economic growth (%) |
|---|----------------------------|
|  <a href="#">Peru</a>      | 6.2%                       |
|  <a href="#">Uruguay</a>   | 6.0%                       |
|  <a href="#">Argentina</a> | 8.0%                       |
|  <a href="#">Colombia</a>  | 4.9%                       |
|  <a href="#">Chile</a>     | 6.5%                       |
|  <a href="#">Suriname</a>  | 5.0%                       |
|  <a href="#">Bolivia</a>   | 5.0%                       |
|  <a href="#">Paraguay</a>  | 6.4%                       |
|  <a href="#">Brazil</a>    | 2.8%                       |
|  <a href="#">Guyana</a>    | 5.3%                       |
|  <a href="#">Ecuador</a>   | 5.8%                       |
|  <a href="#">Venezuela</a> | 2.8%                       |

Argentina's family businesses are of great socio-economic importance because almost 75 percent of total businesses (1,200,000) are family firms, approximately 50 percent of GNP and 70 percent of employment is contributed to family business, and they control 95 percent of total trade (Kaplun, 2001). Also, 85 percent of family businesses are founded by 26 to 28 year old, 76 percent belong to two or more owners, and only 5 percent belong to women, even though data suggest that small business run by women is quickly increasing, and 50,000 new SMEs are started every year (Mancuso, 2009).

### *Peru*

Peru is a nation with a population size of nearly 29.1 million people (World Bank, 2010), a GNI per capita of almost \$ 5,469 and a GDP nearing \$ 159 billion in 2010 (World Bank, 2010). Over the years, Peru has undergone radical structural reforms and signed many free trade agreements that resulted in tremendous growth across most sectors of their economy (IMF, 2010). Unlike Peru's regional neighbors, the Peruvian economy remained strong throughout the 2008-2009 global economic crisis due to proactive macroeconomic measures (IMF, 2010). According to the IMF (2010), Peru's GDP rose nearly 7 % in 2011 with expectations of continued growth performance well into 2012.

For most Peruvians, free enterprise is a relatively new concept. For decades society was controlled by communism with sporadic periods of democracy intermixed between elected leaders in power (Sahley, 1995). Due to the constant switching between political powers, most of the citizens in Peru experienced periods of isolation, confusion, fear, repression, freedom and execution from their leaders. This resulted in hesitation, distrust, anger and stifled innovation which prevented the entrepreneurial spirit from emerging.

However during the early 1990's, the Peruvian government began to actively encourage SME development through government sponsored small enterprise development programs and economic reforms. These programs were established to encourage citizens towards private enterprise, to help grow the economy and to encourage new venture ownership (Sahley, 1995). As a result, the early 1990's saw a boom of entrepreneurship with many family-owned businesses and new ventures emerging. Throughout the years Peru made numerous reforms, but many are still needed. Reforms that allow entrepreneurs to protection and enforce their contracts, or allow for permits to be dispersed easier or electricity to be turned on will attract more entrepreneurs to start businesses in the country.

Overall, the majority of enterprises in Peru are considered to be micro-enterprises, with many owned and operated as family businesses. Family businesses in Peru are an important part of the economy because of increased privatization. Many families and individuals are pursuing free enterprise to increase their standard of living and obtain financial freedom for their family. However, like most transitioning economies many obstacles exist which prevent Peru as a country from fully prospering as a healthy entrepreneurial economy.

### **Hypotheses**

The tested hypotheses derive from specific references in the family business literature to generations (1GFFs versus 2GFF versus 3GFF) 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 and limited *findings* rather than on established *theories*.

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:

Hypothesis 1: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to include non-family members within top management.

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:

Hypothesis 2: 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:

Hypothesis 3: 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:

Hypothesis 4: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to have conflict and disagreement between family members.

Another focus of the literature on family firms is 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. Fiegner and Prince (1994) compared successor planning and development in family and non-family firms, and found that family firms favor more personal relationship-oriented forms of successor development, while non-family firms utilize more formal and task-oriented methods. Building upon these and other studies of succession in family firms, Stavrou (1998) developed a conceptual model to explain how next-generation family members are chosen for successor management positions. This model involves four factors which define the context for succession: *family, business, personal* and *market*.

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:

Hypothesis 5: 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:

Hypothesis 6: Subsequent-Generation Family Firms are more likely than First-Generation Family Firms to use outside consultants, advisors and professional services.

Hypothesis 7: Subsequent-Generation Family Firms spend more time engaging in strategic management activities than First-Generation Family Firms.

Hypothesis 8: 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:

Hypothesis 9: 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. However, opportunities to sell a family firm’s equity to the public obviously vary from country to country, depending upon the strength of the economy, the distribution of wealth, and equity market characteristics. Certainly the status of these factors in Kosovo are less-developed than in more developed countries. Thus:

Hypothesis 10: 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:

Hypothesis 11: Subsequent-Generation Family Firms are neither more nor less likely than First-Generation Family Firms to use equity financing rather than debt financing.

## Methods

The objective of this study was not to compare family firms between the two countries, but rather to combine the data to provide a comprehensive and large sample of family firms that might in turn lead to more general and universal findings than a single-country sample can generate. Thus, the two countries' data were combined into one sample, as Bruton, Ahlstrom, and Obloj (2008) suggested. The combined sample was also used because of the possibility of obtaining weak and invalid results whenever a large sample is broken down into smaller sub-samples (Lussier, 1997).

The research design was survey research using both mail and personal interviews. The previously published Sonfield and Lussier (2004) survey instrument was used to collect the data for the study. The survey questions were published in *Family Business Review*.

### *Sample*

The survey method for data collection in both countries was the same. Data was a combination of email and hand-delivered. In Peru, a total of 145 surveys were distributed, 65 e-mailed and 80 hand-delivered. Through extensive follow-up, especially hand delivering questionnaires to those who did not respond to the email, 108 surveys were completed for a response rate of 75 percent. In Argentina, data collection included phone or email contact in order to schedule a time for a personal interview to complete the questionnaire. However, some family business owners completed the questionnaire and returned it by email. Of the 159 family firms, 102 questionnaires were received, providing a response rate of 64 percent. Thus, the combined response rate is around 70 percent.

This is an excellent sample size and response rate for family business research, as it has been reported that 62 percent of prior family business studies included no sample at all, or a sample with less than 100 family businesses, and 66 percent of these were convenience samples (Bird, Welsch, Astrachan & 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 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 strategic 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.

### *Independent variable*

The independent variable for the first 11 hypotheses was the number of generations involved in the ownership and management of the family business.

### *Statistical Analysis*

Hypotheses 1-10 compared the dependent variable among the three generation groups using a one-way ANOVA test of differences with the post hoc Tukey HSD multiple comparison test. Hypothesis 11, having two nominal measured variables, compared debt to equity by generations using chi-square.

## Results and Discussion

### *Descriptive Statistics*

As shown in Table 1, the generation levels in the sample varied: 1GFF (n=70/ 33%) 2GFF (106/51%), and 3GFF (34/16%). The mean number of years in business and number of employees is 20.5 and 17.5. More businesses in the sample provide a service (120/57%) than a product (90/43%). Over half the businesses are sole proprietorships (131/62%), followed by a fairly equal split between partnerships (43/21%) and corporations (36/17%).

### *Hypotheses Statistics*

See Table 2 for the results of hypotheses testing. Of the 11 hypotheses tested, three were significantly different among the three generations (H6, H9, H10). However, none of the significant differences found were fully supported as predicted.

*H6: “Subsequent-generation family firms are more likely than first-generation family firms to use outside consultants, advisors and professional services.”*

This hypothesis is only partially supported. The one-way ANOVA results show a significant difference (m 1=3.00, m 2=3.30, m 3=4.88, p = .002) between generations. Based on the results of the Tukey HSD multiple comparisons test between each generation separately, the 3<sup>rd</sup> generation is more likely to use outside help than the 2<sup>nd</sup> (3 m=4.88 vs 2 m=3.30, p = .006), and the 1<sup>st</sup> (3 m=4.88 vs 1 m=3.00, p = .002) generation. However, when comparing the 1<sup>st</sup> and 2<sup>nd</sup> generations, there is no significant difference (m 1=3.00 vs 2 m=3.30, p = .725), so neither generation uses more outside help than the other. Thus, in relation to the discussion of relevant prior research findings presented earlier in this paper (in the HYPOTHESES section), this finding does not support the existing literature (minimal as it may be).

Table 1. Descriptive Statistics

| Variable                | Statistic (N = 210) |
|-------------------------|---------------------|
| Country                 |                     |
| Peru                    | 108 / 51%           |
| Argentina               | 102 / 49%           |
| Generation              | (n / % of N)        |
| 1 <sup>st</sup>         | 70 / 33%            |
| 2 <sup>nd</sup>         | 106 / 51%           |
| 3 <sup>rd</sup> or more | 34 / 16%            |
| Total N                 | 210 / 100%          |
|                         | (mean / s.d.)       |
| Years in business       | 20.52 / 18.53       |
| Number of employees     | 17.49 / 31.02       |
| Industry                | (n / % of N)        |
| Product                 | 90 / 43%            |
| Service                 | 120 / 57%           |
| Ownership               | (n / % of N)        |
| Sole Proprietor         | 131 / 62%           |
| Partnership             | 43 / 21%            |
| Corporation             | 36 / 17%            |

*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.”*

This hypothesis is also not fully supported. First-generation family firms were more influenced by the founder ( $m_1=6.39$ ) than 2<sup>nd</sup> ( $m_2=5.91$ ) and 3<sup>rd</sup> ( $m_3=5.29$ ) generations ( $p = .012$ ). Also, based on the results of the Tukey HSD multiple comparisons test between each generation separately, in the 1<sup>st</sup> generation the founder is no more influential than in the 2<sup>nd</sup> ( $m_1=6.39$  vs  $m_2=5.91$ ,  $p = .185$ ), but the 1<sup>st</sup> generation founder is significantly more influential than in the 3<sup>rd</sup> ( $m_1=6.39$  vs  $m_3=5.29$ ,  $p = .010$ ) generation. Thus, for this hypothesis too, this finding does not support the existing literature.

*H10: “Subsequent-generation family firms are more likely than first-generation family firms to have considered “going public.”*

This hypothesis was only partially supported. Based on the results of the Tukey HSD multiple comparisons test between each generation separately, the 3<sup>rd</sup> generation is more likely to consider going public ( $m_3=1.76$ ) than the 2<sup>nd</sup> ( $m_2=1.23$ ) ( $p = .042$ ), but is not significantly more likely to consider going public than the 1<sup>st</sup> ( $m_1=1.41$ ) generation ( $p = .297$ ). When comparing the 1<sup>st</sup> and 2<sup>nd</sup> generations, there is no significant difference, so either generation is as likely to consider going public ( $p = .524$ ). So for this hypothesis as well, this finding does not support the existing literature.

Table 2. Hypotheses Testing (N = 210)

| Variables  | Mean/s.d. <sup>1</sup> Frequency/%  | p-value |
|--|---|---------|
| Generation—IV used to test 11 Hypotheses DVs                     | 1 <sup>st</sup> 70 / 33%<br>2 <sup>nd</sup> 106 / 51%<br>3 <sup>rd</sup> 34 / 16%         |         |
| H1. Percentage of Non-family managers<br>(% non-family managers) |   | .213    |
| H2. Percentage of women involved business<br>(% of women)        |   | .761    |
| H3. Use of team-management decision style<br>(7-1)               |   | .814    |
| H4. Occurrence of conflict and disagreements<br>(7-1)            |   | .062    |
| H5. Formulation of specific succession plans<br>(7-1)            |   | .890    |
| H6. Use outside advisor/professional services<br>(7-1)           | 1 <sup>st</sup> 3.00 / 2.51<br>2 <sup>nd</sup> 3.30 / 2.62<br>3 <sup>rd</sup> 4.88 / 2.49 | .002    |
| H7. Time spent in strategic planning<br>(7-1)                    |   | .589    |
| H8. Use sophisticated financial mgt methods<br>(7-1)             |   | .085    |
| H9: Influence of original founder<br>(7-1)                       | 1 <sup>st</sup> 6.39 / 1.33<br>2 <sup>nd</sup> 5.91 / 1.86<br>3 <sup>rd</sup> 5.29 / 2.21 | .012    |
| H10. Consider going public<br>(7-1)                              | 1 <sup>st</sup> 1.41 / 1.24<br>2 <sup>nd</sup> 1.23 / .77<br>3 <sup>rd</sup> 1.76 / 1.67  | .051    |
| H11. Debt or equity financing<br>(Chi-Square test)               |   | .408    |

<sup>1</sup>The top number for all variables is for the 1<sup>st</sup> Generation and the bottom is for 2-3 (7-1) “Describes our firm” 7 6 5 4 3 2 1 “Does not describe our firm.”

To summarize the differences identified by the various statistical tests:

1. *The use of outside consultants, advisors and professional services increased through the three generational levels, but only statistically significantly from the second-generation to the third-generation level.*
2. *The influence of the original business objectives and methods of the founder decreased through the three generational levels, but only statistically significantly from the second-generation to the third-generation level.*
3. *The likelihood of top management considering going public increased from the second-generation level to the third-generation level (but not from first-generation level to second-generation-level).*

Clearly, much of the earlier literature findings regarding possible generational differences among family firms are not supported by this study. None of the 11 hypothesis variables had statistically significant generational differences across all three generational levels. Thus the results were contrary to the literature, which tends to support generational differences (Sonfield et. al., 2005).

In summary, in most respects, first-generation, second-generation, and third-generation family businesses in our South American sample shared the same managerial characteristics and behavior patterns. These findings are generally consistent with the authors' more recent findings in other countries and geographic areas. Thus, these current results generally do not support the earlier findings and conclusions of Aronoff (1998), Beckhard and Dyer (1983), Cole and Wolken (1995), Coleman and Carsky (1999), Davis and Harveston (1999, 2001), Dyer (1988), Filbeck and Lee (2000), McConaughy and Phillips (1999), Miller, et al. (2001), and Schein (1983), all of whom found and/or postulated generational differences among family businesses (as discussed in detail in the *Hypotheses* section).

### **Implications**

This study and its findings offer several important contributions to the field of family business. Beyond the authors' studies, prior family business research has rarely focused specifically on comparisons of first and subsequent generation firms. The few other 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 extends ground-floor empirical investigation of this specific issue, and adds to the limited existing and primarily qualitative body of literature.

Therefore, a better understanding of these generational similarities and differences might direct and enable entrepreneurship, small business, and family firm researchers to more clearly focus their future investigations and theory development into these 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 and subsequent-generation family business clients, and also might assist family business owner-managers in their understanding and self-analyses of their businesses.

Also, this study supports the authors' earlier findings that family firm generational factors differ to a certain degree from one country to another, and that family businesses in more developed countries may have some generational differences not found in less-developed countries (Sonfield et. al., 2005).

Furthermore, the findings of this study with regard to generational analyses provide data that are different from the conclusions reached by much of the limited previous conceptual and empirical research. This raises questions about these earlier conclusions and indicates a need for further empirical research.

And lastly, another valuable contribution of this study is that it extends the authors' prior investigations of this subject into a new area – South America. As more geographic areas are added to the authors' family business data base, the value of their research grows.

### Conclusion

In summary, this investigation compared first-, second- and third-generation family businesses in a sample of 210 South American companies. Both supporting the authors' various prior country studies and yet challenging the earlier more conceptual literature, the findings of this study indicate that, as family businesses move from first to second to third generations, most managerial characteristics, activities and practices remain the same. Implications have been presented for theory development, for further research, and for those who manage or advise family businesses.

### References

- Abdellatif, M., Amann, B. & Jaussaud, J., 2010. Family versus nonfamily business: A comparison of international strategies. *Journal of Family Business Strategy*, 1(2): 65-116.
- Aronoff, C. E., 1998. Megatrends in family business. *Family Business Review*, 11: 181-192.
- Arrieta, D., 2009. Empresas familiares: cuando llegan los terceros. *IAE Instituto Argentino de la Empresa, Revista Antiguos Alumnos N°16*, 68-71.
- Beckhard, R. & Dyer, W., 1983. Managing continuity in family-owned business. *Organizational Dynamics*, 12 (1): 5-12.
- Bird, B., Welsch, H., Astrachan, J.H., & Pistrui, D., 2002. Family business research: The evolution of an academic field. *Family Business Review*, 15: 337-350.
- Bork, D., Jaffe, D., Jane, S., Dashew, L., & Heisler, Q., 1996. *Working with Family Businesses*. San Francisco: Jossey-Bass.
- Bosma, N. and Levie, J., 2009. *Global Entrepreneurship Monitor 2009 Global Report*, www.3babson.edu. Retrieved on December 10, 2010 at [http://www3.babson.edu/ESHIP/researchpublications/upload/GEM\\_2009\\_Global\\_Report.pdf](http://www3.babson.edu/ESHIP/researchpublications/upload/GEM_2009_Global_Report.pdf).
- Bruton, G. D., Ahlstrom, D. and Obloj, K., 2008. Entrepreneurship in emerging economies: where are we and where should the research go in the future. *Entrepreneurship Theory and Practice* 32(1): 1-14.
- Carsrud, A., 1994. *Lessons learned in creating a family business program*, University of California, Los Angeles: Unpublished manuscript.
- Christensen, C., 1953. *Management Succession in Small and Growing Businesses*, Boston: Division of Research, Harvard Business School.
- Chua, J., Chrisman, J., & Sharma, P., 1999. Defining the family business by behavior. *Entrepreneurship Theory and Practice*, 23( 4): 19-40.
- Cole, P., 1997. Women in family business. *Family Business Review*, 10: 353-371.
- Cole, R. & Wolken, J., 1995. Financial services used by small businesses: Evidence from the 1993 National Survey of Small Business Finances. *Federal Reserve Bulletin*, July: 629-666.
- Coleman, S. & Carsky, M., 1999. Sources of capital for small family-owned businesses: Evidence from The National Survey of Small Business Finances. *Family Business Review*, 12: 73-85.
- D'Annunzio, M.C. & Rábago, P. L., 2007. Entrepreneurship, instituciones y turismo: Una combinación para la generación de entornos innovadores, XII Reunión Anual RedPyMes. Campinas. Brasil.
- Davis, P., 1983. Realizing the potential of the family business. *Organizational Dynamics*, 12( 1): 47-56.
- Davis, P. and Harveston, P., 1999. In the founder's shadow: Conflict in the family firm. *Family Business Review*, 12: 311-323.
- Davis, P. and Harveston P., 2001. The phenomenon of substantive conflict in the family firm: A cross-generational study. *Journal of Small Business Management*, 39( 1): 14-30.

- Dennis, W., 2003. Raising response rates in mail surveys of small business owners: Results of an experiment. *Journal of Small Business Management*, 41(3): 278-295.
- Donnelley, R., 1964. The family business. *Harvard Business Review*, 42(4): 94-105.
- Dreux, D. & Brown, B., 1999. Marketing private banking services to family business, : [http://www.genusresources.com/Mark.Priv.Bank.Dreux\\_5.html](http://www.genusresources.com/Mark.Priv.Bank.Dreux_5.html). Retrieved September 5, 2010.
- Duh, M., Tominc, P., & Rebernik, M. (2009). The Importance of Family Enterprises in Transition Economies: Is It Overestimated? *Eastern European Economics*, 47(6), 22-42. Retrieved from EconLiton September 8, 2010 at <http://0web.ebscohost.com.skyline.ucdenver.edu/ehost/pdfviewer/pdfviewer?vid=2&hid=112&sid=14a52d4e-b872-40c4-bf57-02003368d05b%40sessionmgr104>.
- Dyer, W.G., 1988. Culture and continuity in family firms. *Family Business Review*, 1: 7-50.
- Dyer, W.G. & Sánchez, M., 1998. Current state of family business theory and practice. As reflected in *Family Business Review 1988-1997: 11: 287-295*.
- Eddy, P., 1996. Lessons, legends and legacies: Serving the family business. *Journal of Financial Planning*, 9(6): 76-79.
- Fiegenger, M. K. & Prince. R.A., 1994. A comparison of successor development in family and nonfamily businesses. *Family Business Review*. 7: 313-329.
- Filbeck G. & Lee, S., 2000. Financial management techniques in family business. *Family Business Review*, 13: 201-216.
- Fu-Lai, T., 2009. Towards a structural model of a small family business in Taiwan. *Journal of Small Business and Entrepreneurship*, 22(4): 413-428.
- Gersick, K., Davis, J. Hampton, M., & Lansberg, I. 1997. *Generation to Generation: Life Cycles of the Family Business*, Boston: Harvard Business School.
- Handler, W.C., 1989. Methodological issues and considerations in studying family businesses. *Family Business Review*, 2: 257-276.
- Handler, W.C., 1994. Succession in family business. *Family Business Review*, 7: 133-157.
- Hershon, S., 1975. *The Problems of Succession in Family Businesses*, Harvard University, Cambridge, MA: Unpublished doctoral dissertation.
- Hoy, F., 2003. Legitimizing family business scholarship in organizational research and education. *Entrepreneurship Theory and Practice*, 27: 417-422.
- International Monetary Fund, World Economic Outlook Database, (2010), <http://www.imf.org/external/pubs/ft/fandd/2005/12/country.htm>
- Kaplun C., 2001. Continuidad y cambio: la familia en la empresa, Revista Mercado, Editorial Coyuntura, available online <http://www.mercado.com.ar/nota.php?id=36592> Accessed July 18th, 2010
- Kellermann, F.W. & Eddleston, K.A., 2004. Feuding families: When conflict does a family firm good. *Entrepreneurship Theory and Practice*, 28: 209-228.
- Kelly, L.M., Athanassiou, N., & Crittenden, W.F., 2000. Founder centrality and strategic behavior in the family-owned firm. *Entrepreneurship Theory and Practice*, 25: 27-42.
- Kets de Vries, M., 1993. The dynamics of family controlled firms: The good and bad news. *Organizational Dynamics*, 21(3): 59-71.
- Lansberg, I., Perrow, E.L., & Rogolsky. S., 1988. Family business as an emerging field. *Family Business Review*, 1: 1-7.
- Levinson, H., 1971. Conflicts that plague the family business. *Harvard Business Review*, 49(2): 90-98.
- Littunen, H. and Hyrsky, K., 2000. The early entrepreneurial stage in Finnish family and nonfamily firms. *Family Business Review*, 13: 41-54.
- Litz, R., 1995. The family business: Towards definitional clarity. *Family Business Review*, 8: 71-81.
- Litz, R., 1997. The family firm's exclusion from business school research: Explaining the void; Addressing the opportunity. *Entrepreneurship Theory and Practice*, 22(2): 55-71.

- Lopez, G. A., 2003. Estudio de la empresa familiar en Rosario una aproximación etnográfica. Invenio, noviembre, Universidad del Centro Educativo Latinoamericano. *Rosario, Argentina: 6(11): 91-100.*
- Lussier, R. N., 1997. Predicting entrepreneurial success versus failure: a comparison of multi and single-industry techniques, *Academy of Entrepreneurship Journal 3(1): 89-101.*
- Mancuso, E., 2009. La empresa familiar emprendedora. Universidad de Palermo GSB. Conferencia Endeavor.
- McCann, J., Leon-Guerrero, A. & Haley, J., 1997. Family business with a capital “B”: Characteristics, priorities and performance of family firms. Paper presented at the *Academy of Management Meeting*, Boston, MA.
- McConaughy, D.L., 1994. *Founding Family Controlled Corporations: An Agency-Theoretic Analysis of Corporate Ownership Structure and its Impact upon Corporate Efficiency, Value, and Capital Structure*, University of Cincinnati, OH: Unpublished doctoral dissertation.
- McConaughy, D.L. & Phillips, G.M., 1999. Founders versus descendents: The profitability, efficiency, growth characteristics and financing in large, public, founding-family-controlled firms. *Family Business Review, 12: 123-131.*
- Miller, N., McLeod, H., & Oh, K., 2001. Managing family businesses in small communities. *Journal of Small Business Management, 39 (1): 73-87.*
- Morck, R. & Yeung, B., 2004. Family control and the rent-seeking society. *Entrepreneurship Theory & Practice, 28(4): 391-409.*
- Morris, M. H., Williams, R.O., Allen, J.A., & Avila, R.A., 1997. Correlates of success in family business transitions. *Journal of Business Venturing, 12: 385-401.*
- Niethardt, E., 2007. La empresa familiar convive con la globalización, published online available at <http://www.niethardt.com/publicaciones.php> , accessed July 18, 2010.
- Nelton, S., 1998. The rise of women in family firms: A call for research now. *Family Business Review, 11: 215-218.*
- Nicholson, H., Shepherd, D. & Woods, C. Advising New Zealand’s family businesses: Current issues and opportunities. *University of Auckland Review, 1(1): 1-7.*
- Nordqvist, M. & Melin, L., 2009. The promise of the strategy as practice perspective for family business strategy research. *Journal of Family Business Strategy, 1(1): 15-25.*
- Nordqvist, M. & Melin, L., 2010. Entrepreneurial families and family firms. *Entrepreneurship and Regional Development, 22(3-4): 211-239.*
- Observatorio permanente de las Pymis Argentinas. Union Industrial Argentina: Evolución y situación actual de las pequeñas y medianas industrias argentinas. 1995-2000. Buenos Aires, Instituto para el Desarrollo Industrial de la Unión Industrial Argentina, 2001.
- Office of Advocacy 2001. *Women-Owned Firms Continue Dramatic Growth*, (SBA No: 01-03 ADVO), Washington, D.C.: U.S. Small Business Administration, April 4.
- Peiser, R. & Wooten, L., 1983. Life-cycle changes in small family businesses. *Business Horizons*, May-June: 58-65.
- Perez, P. and Puig, N., 2009. Global lobbies for a global economy: The creation of the Spanish Institute of Family Firms. *Business History, 51(5): 712-733.*
- Rábago, P.L., D’Annunzio M.C.; Monserrat S.y Barberón S., 2009. Empresas familiares: Caracterización e identificación de problemáticas específicas, VI Encuentro de Centros de Investigación, Tandil, Universidad Nacional del Centro de la Provincia de Buenos Aires. ISBN N° 978-950-658-235-7.
- Romano, C.A., Tanewski, G.A., & Smyrnios, K.X., 2001. ‘Capital structure decision making: A model for family business. *Journal of Business Venturing, 16: 285-288.*
- Sahley, C. M., 1995. NGO Support for Small Business Associations: A Participatory Approach to Enterprise Development. *Community Development Journal, 30, 1, 56-65.*

- Saito, T., 2008. Family firms and family performance: Evidence from Japan. *Journal of the Japanese and International Economies*, 22(4): 620-646.
- Schein, E., 1983. The role of the founder in creating organizational culture. *Organizational Dynamics*, 12(1): 13-28.
- Sharma, P., Chrisman, J., & Chua, J., 1997. Strategic management of the family business: Past research and future challenges. *Family Business Review*, 10: 1-35.
- Sonfield, M., Lussier, R.N., Pfeifer, S., Manikutty, S., Maherault, L. & Verdier, L., 2005. A cross-national investigation of first-generation, second-generation, and third-generation family businesses: A four-country ANOVA comparison. *Journal of Small Business Strategy*, 16(1): 9-26.
- Stavrou, E.T., 1998. A four factor model: A guide to planning next generation involvement in the family firm. *Family Business Review*, 11: 135-142.
- Upton, N. & Heck, R., 1997. The family business dimension of entrepreneurship. In D. Sexton. & R. Smilor (Eds), *Entrepreneurship 2000*, Chicago: Upstart Publishing.
- Wan, H & Wan, N., 2009. The impact of family firm structure and board composition on corporate transparency: Evidence based on segment disclosures in Malaysia. *International Journal of Accounting*, 44(1): 313-333.
- Ward, J., 1986. Family ownership, business strategy and performance. Paper presented at the annual *Academy of Management Meeting*, Chicago, IL.
- Ward, J. and Dolan, C., 1998. Defining and describing family business ownership configurations. *Family Business Review*, 11: 305-309.
- Wikipedia 2010. [www.wikipedia.com](http://www.wikipedia.com) accessed July 19, 2010.
- The World Bank Group, 2010. <http://data.worldbank.org/country/peru>
- Zellweger, T., Eddleston, K. & Kellersmann, F., 2010. Exploring the concept of famliness: Introducing family firm identity. *Journal of Family Business Strategy*, 1(1): 54-63.

# Guided Student Reflection: A Critical Imperative for Experiential Learning

Bonnie Canziani, University of North Carolina Greensboro  
Jerrie Hsieh, University of North Carolina Greensboro  
Wen Chin Hsieh, National Kaohsiung University  
Ling-Chen Weng, Meiho University

## Abstract

This paper presents analysis of student reflection data from a small business consulting project conducted by hospitality students for bed and breakfast owner clients in Taiwan. The authors focus on *guided* reflection as a tool to ensure student learning. Student learning outcomes were documented in hospitality subject areas and in the area of consulting skill sets. Even though the project placed students in continuous close contact with small business owners, reports of learning about entrepreneurship were markedly absent. This case study specifically reveals how the design of the reflection process can affect the scope of learning.

## Introduction

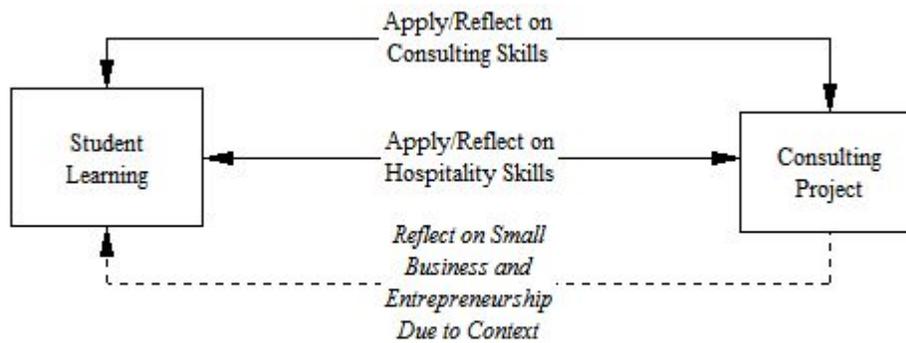
Various agencies influencing the direction of business education, e.g., AACSB (Ames, 2006) and the Small Business Institute (Cook & Belliveau, 2006), have prompted educators to use experiential learning methods within the business curriculum. Practice-oriented learning interventions expand the ways in which students encode new information about complex interdisciplinary disciplines such as hospitality and entrepreneurship. Notably, there is still debate (e.g., Shepherd & Douglas, 1997) about how much of learning about entrepreneurship results from mere trial and error or from the guidance of discerning educators placing a learner who is already entrepreneurially-minded in the right place at the right time (Sonfield, 2008).

In concert with these teaching and learning philosophies, this paper offers a case study to explore the use of student consulting projects in enhancing hospitality students' business competencies. The authors were provided access to students engaged in a small business consulting project in Taiwan, and correspondingly collected student reflection statements under the supervision of the course instructors. The core structure of the course was that hospitality students worked collaboratively on a university-sponsored project to support bed and breakfast (B&B) innkeepers in eastern Taiwan.

It is our belief that student reflection as a teaching and learning technique anchors experiential learning to desired student learning outcomes in way that prove to be particularly beneficial for courses using students as consultants on real world projects. Of particular interest is the issue of how much the instructor needs to micro-manage reflection prompts in order to achieve desired learning outcomes in an experientially-based course. Ames (2006) views assurance of learning as difficult to achieve in consulting projects if careful steps are not taken to collect relevant and reliable data about student learning along the way. In the consulting project underpinning this case study analysis, instructors sought to support assurance of learning by engaging students in reflection about their personal motivations and learning throughout the project lifespan, although reflection prompts were kept general in nature. Course learning goals were communicated through syllabi and project outlines, and did not specifically target learning about small business and entrepreneurship, focusing more on applications of hospitality and professionalism in consulting activities.

A learning process depicted in Figure 1 models the authors' expectations for learning outcomes from this small business consulting project, adapting the basic premises of experiential learning cycle models (e.g., Kolb, 1984).

Figure 1. Reflection in a consultancy-based student learning process



The authors expected student reflections on the consulting project to be targeted on three distinct learning outcomes: hospitality competency, consulting skill sets, and a third indirect learning outcome of small business and hospitality entrepreneurship, due to the focus on B&B clients who represented small business owners in Taiwan.

### Background Literature

Ideas regarding the importance of experiential learning can be traced back to the work of John Dewey (1910, 1938). Dewey integrated the idea of experiential learning into traditional higher education. He believed that experiential learning could serve as a bridge between the academic and the practical. Colleges and universities have embraced this idea in myriad forms: internships, field trips, problem-solving based projects, community-based projects, and other highly engaging activities included in academic coursework (Roberts, 2006).

#### *Experiential Learning Cycles*

Drawing upon the literature on experiential learning cycles (Kolb & Kolb, 2005; Neill, 2004), we see that learners must be actively engaged in the educational process by consciously performing a range of tasks such as observation, reflection, conceptualization, and experimentation. Expanding upon Dewey's (1938) work and Lewin's (1951) field theory, Kolb proposed a four-stage cyclical model of learning. The first stage, *concrete experience*, occurs when the learner is exposed to an identifiable event or series of occurrences. The second stage, *reflective observation*, is when the learner consciously reflects back on that salient experience. In the third stage, *abstract conceptualization*, the learner attempts to conceptualize a theory or model to explain antecedents or consequences of the experience. The fourth stage, *active experimentation*, is when the learner plans to or actively tests the model in a new experiential situation. A person passes through these modes repeatedly in a way that helps him or her learn from the past and take new information into future learning situations (Kolb, 1984).

While Greenaway (2002) points out the fact that learning experiences are often naturally occurring, chance experiences alone are not sufficient to achieve planned learning goals in the world of formal business education. In many cases, educators must manage the students' exposure to experience through assigned tasks that require students to process their observations in ways that are meaningful to the academic discipline under consideration (Atherton, 2002). Rainsford (1992) emphasizes the need for continuous interactions between faculty and students during all phases of an SBI-type consulting project in order to improve quality of service to the client and to reinforce the business professionalism of the student consultants.

### *Reflection as a Critical Component of Experiential Learning*

The educational community has regularly incorporated reflection into its learning designs (Boud, Keogh, & Walker, 1985; Mezirow, 1990; Rogers, 2001; Schon, 1987). Reflection techniques have been applied as part of experiential learning in a variety of disciplinary contexts, including *business* (e.g., Hegarty, 2011; Sutton, McFarland, Sanchez, & Vuyovich, 2012; Walmsley, Thomas, & Jameson, 2006); *education* (e.g., Burn, Hagger, & Hutton, 2000; Loughran, 2002; Yost, Sentner, & Forlenza-Bailey, 2000); *healthcare* (e.g., Atkins & Murphy, 1994; Aukes, Geertsma, Cohen-Schotanus, Zwierstra, & Slaets, 2008; Wallman, Lindblad, Gustavsson, & Ring, 2009); *service-learning* (e.g., Molee, Henry, Sessa, & McKinney-Prupis, 2010) and *social work* (e.g., Bogo, Regehr, Katz, Logie, & Mylopoulos, 2011).

There is additional evidence in the literature that student reflections can be a source for educators to verify what students are learning in a course or educational experience (McClam, Diambra, Burton, Fuss, & Fudge, 2008; Sessa, Matos, & Hopkins, 2009). Quinton and Smallbone (2010) *suggest that* reflection operates cognitively in ways that help students to question the applicability of knowledge and skills to situations. They also rationalize that reflection helps students identify ability gaps that might be filled through consideration of available learning opportunities and resources. Reflection has also been linked to an improved capacity for managing personal and career development through more effective self-assessment and planning (Moon, 2002; Sadler, 1989; Smith & Pilling, 2007; Stefani, Clarke, & Littlejohn, 2000).

While a diverse array of reflection techniques has been developed in higher education (Epp, 2008; Grossman, 2009; O'Connell & Dymont, 2006), further investigation is required into the degree to which guidance is necessary to permit reflection to serve as a tool for targeted learning (Eyler, 2002; Eyler & Giles, 1999). Billett & Ovens (2007) strongly urge increased faculty management of the student reflection process so that students are encouraged to think strategically about the experiences that they are involved in during experiential learning activity. Ash & Clayton (2004) advocate the use of structured reflection techniques that include three primary stages: “(a) *description* (objectively) of an experience, (b) *analysis* in accordance with relevant categories of learning; and (c) *articulation* of learning outcomes, which we find fits nicely with the tenets of experiential learning cycle frameworks as well as feasible in the context of student consulting” (p. 140).

### *Using Student Consulting Projects as a Mode of Experiential Learning*

One rich experiential learning strategy within business education is that of the consulting project (Heriot & Campbell, 2002; Madison & Junell, 1998). Consulting projects provide a context within which students solve complex, real-world problems together with their clients. Consulting work engenders a new concern for practicality, constructability, and social impact issues that arise when applying theories and lessons to actual real life challenges (Ferrari & Sternberg, 1998). Students who serve as consultants to others gain increased insights into their personal strengths and weaknesses in the discipline's core knowledge and skills (Sternberg & Williams, 1998) and the authors would expect student consultants to better understand their client's industry and entrepreneurial role in greater society.

### **Identifying the Case Study Setting**

The case analysis is conducted based on reflection data collected from students involved in a consulting project focused primarily on hospitality business. The relevance to learning about small business and entrepreneurship came later due to the nature of the client base that was ultimately identified for the project. It became apparent that a likely setting for a meaningful hospitality consulting project would be the target area of eastern Taiwan. Tourism has become one of the major economic resources in this region.

### *Identifying the Project Client Base*

In response to the increasing number of tourists and the demand for accommodation in eastern Taiwan, many local residents have turned their houses into B&B operations. In fact, there are now more than 1,100 registered B&Bs in and around Hualien and Taitung. Many of the owners who entered the B&B business in Taitung did so without any hotel management experience and were on the verge of bankruptcy at time of the consulting project. Their unstable financial situations therefore jeopardized the quality of their service. Compared with chain hotels that have access to vast corporate resources, these B&Bs are small businesses run by individuals. This lack of access to resources puts them in a disadvantaged situation.

Based on its own research efforts, a local support organization, the Alliance Cultural Foundation (ACF), in response to overtures from the local university, advanced a proposal (Alliance Cultural Foundation, 2010) inviting students to conduct a property enhancement study to help B&B innkeepers incorporate hospitality best practices into their B&Bs to increase marketability and sustainability of the properties. Students would (1) be able to apply the customer service concepts they learned in the classroom to a real world situation; (2) be able to apply their knowledge and skills in hotel management to help B&B innkeepers better manage their properties; (3) be able to conduct a study to develop the niche of the B&Bs by improving their physical presentation; (4) be able to develop contacts within the lodging industry.

The authors, intent on examining the role of student reflection in a hospitality consulting project, partnered on the project with the course instructors. Because of budget constraints, this project could only accommodate 10 students and would be initiated in the winter-break semester. The ten students who participated in the B&B consulting project serve as the population for this study. Seven of the students were female and three were male. All were single and their ages ranged from 20 to 23 years old. Eight of the students had hospitality work experience ranging from one to three years. Four had previously been involved in consulting project work. All but one student were majoring in hotel management.

### *Structuring a Consulting Project for Learning*

The general thrust of the project was B&B property enhancement. Each of the structured consulting tasks offered the students opportunities to enhance knowledge and skills relevant to the hospitality and tourism field as well as business consulting. While the course did not directly introduce student learning outcomes about small business enterprises or entrepreneurship, the researchers were consciously aware of potential learning due to clientele being small business operators. Therefore, while the instruction was not focused on that aspect of the learning experience, data analysis on the researcher side certainly was sensitive to the potential learning outcomes that might accrue from close exposure to B&B operations.

The structured consulting project captured Kolb's (1984) first learning stage of *concrete experiences*; students visited B&Bs with a team of experts in hotel management, interior design, and culinary arts. Students observed how the experts walked through the property making suggestions, for example, how the designers rearranged the furniture to make a room more spacious and inviting and listened to all recommendations the experts made for enhancing the properties' aesthetic appeal and quality.

Student reflection was a critical component of the consulting project, as students immersed themselves in the experience and then articulated that experience through reflective observation. At the end of each day, instructors met with students and discussed the problems and issues they encountered during their physical visits to the B&Bs. Instructors facilitated the reflection process and asked guided discussion questions. Students were challenged to think critically about their daily consulting activities and share their learning experiences. Examples of the discussion questions were as follows: "What did you learn from the experts?" "What did you observe on the B&B sites you visited?" "How did you identify the niche of the B&B property?" "What was your greatest accomplishment today?" "What was your biggest challenge today?" and "How does the physical enhancement project relate to your hospitality skills?"

During the second phase of the project, coinciding with Kolb’s active experimentation stage of learning, students were divided into teams to visit additional B&Bs and required to provide suggestions for enhancing the physical appearance of the properties. They took pictures to document all the B&B establishments they visited and changes made based on their recommendations. Instructors reviewed students’ reports for each individual B&B with the students assigned to that property. Guided reflections were also conducted to deepen students’ learning about consulting by reflecting on questions such as, “What are the skills and knowledge needed for a successful B&B project consultant?” “What’s the most difficult aspect of working in a team?” “What did you learn from the consulting project?”

At the end of the course, students were asked to write a reflective report by following specific prompts to express and explore their individual learning. Final student reflective writings were gathered and processed jointly with the instructors and research team.

#### *Analysis of Reflection Data*

Reflections collected both during observations of instructor-led group discussions and from students’ final reflective reports were analyzed by the authors to explore student learning during the project. The authors sought to gauge the degree to which student reflections settled upon topics that were relevant to the two principal project learning goals of hospitality business skills and consulting work, as well as upon entrepreneurship and other learning outcomes.

Recordings were transcribed verbatim and subsequently analyzed. Raw responses pertaining to the areas of inquiry were extracted and analyzed for content and then inductively sorted into meaningful categories. A multi-rater technique was employed to resolve inconsistencies in categorization among the authors.

### **Findings**

The discussion of findings is directed towards categorizing the types of learning outcomes that appeared to be most salient to students engaged in the consulting project.

#### (a) Motivations for engaging in student consulting projects

Motivating factors ranged from the personal influence of instructors and others to self-actualization beliefs. The primary motivators are captured in Table 1:

Table 1: Motivations for Engaging In Student Consulting Projects

| Motivators  | Examples   |
|---|--|
| <i>Influence from legitimate authority</i>  | <ul style="list-style-type: none"> <li>• “My department head encouraged me to participate in this community service project.”</li> </ul>   |
| <i>Opportunity for social networking and learning from teachers and professionals</i> | <ul style="list-style-type: none"> <li>• “I thought it was a great opportunity that I could work with my instructor (who used to be the general manager of a prestigious hotel in Taiwan and has published books regarding his hotel management experiences) and learn from him.”</li> <li>• “I wanted to learn more about the bed-and-breakfast operations and network with industry professionals.”</li> <li>• “Mr. X’s dedication to his work and the way he treated people have had an influence on me.” (Note: name omitted)</li> </ul> |
| <i>Wanting to help others or the community</i>  | <ul style="list-style-type: none"> <li>• “I heard about all the great things that Mr. X and the foundation have done to improve the quality of tourism in the Taitung area and wanted to be part of it.”</li> <li>• “I wanted to do something for others and make winter break meaningful.”</li> <li>• “I was so inspired by Mr. X’s determination to make Taiwan a better place and his contribution to Taiwan’s tourism development.</li> </ul>  |

(b) Concrete experiences and derived theoretical principles

Students were asked to describe their observations of things or events that stood out to them during their visits to the B&Bs and during their encounters with people in the project as presented in Table 2. The subheadings serve to indicate theoretical principles the researchers posit are closely associated with the student reflection groupings.

Table 2: Theoretical Principles Derived from Reflections

| Theoretical Principles  | Examples   |
|---|--|
| <i>Importance of quality management and hospitality product quality</i>       | <ul style="list-style-type: none"> <li>• “There seemed to be a lack of operational procedures for housekeeping and front desk.”</li> <li>• “The experts really made a difference when they changed the B&amp;Bs accessories and furniture.”</li> <li>• “I now realize that paying attention to details is so important.”</li> <li>• “Seeing how experts rearranged the B&amp;Bs, I learned to use aesthetics and creativity to develop the niche appearance of the property.”</li> <li>• “By working with experts, I realized that even professionals from various fields, such as arts, architecture, interior design, and gardening can contribute to this industry.</li> <li>• “By visiting B&amp;Bs, I realized the importance of first impression and its relationship to marketing.</li> <li>• This consulting project is a great example of redesigning and repositioning one of the marketing “Ps” (product) to attract more tourists.”</li> </ul>                                     |
| <i>Customer service and hospitableness are critical to successful tourism</i> | <ul style="list-style-type: none"> <li>• “The hospitality of the local people was very good. They knew we were here to help the B&amp;B operators; they invited us to their houses to be their guests. They showed us around and wanted to introduce their hometown to us. We were treated like a VIP. I was so impressed by their hospitality. I told myself, if I had my own business, this was the type of hospitality that I want to provide to my customers. ”</li> <li>• “Through the interaction with B&amp;B operators and seeing how our instructor communicated with the clients, I felt that what I learned from the textbook about customer service came to life.”</li> <li>• “From these tiny little things he (Mr. X) did, I realized why he was so well respected. From the way he interacted with people, I had a new understanding about the real meaning of service.”</li> </ul>   |
| <i>Consulting work requires professionalism</i>                               | <ul style="list-style-type: none"> <li>• “I learned from the textbook that clients were pleased if you called them by their names. We immediately held a group meeting to develop our strategy. Since these were B&amp;B innkeepers and the majority had their own websites, we searched all the websites as a team and printed out the online photos of the innkeepers. We spent the rest of the day trying to memorize their names. And we made it! We called each of the operators by name before they identified themselves. These B&amp;B innkeepers were amazed and impressed and even asked us how we knew who they were.”</li> <li>• “I got to make suggestions to the B&amp;B innkeepers for enhancing the physical appearance of their properties.”</li> <li>• “There are a lot of time constraints; I don’t get a lot of sleep.”</li> <li>• “This project is a heavy workload with a lot of pressure.”</li> <li>• “There are so many last-minute incidents and changes.”</li> </ul> |

|   |  |
|---|--|
|   | <ul style="list-style-type: none"> <li>• “Sometimes we have conflict among team members.”</li> <li>• “Some B&amp;B operators feel defensive when we point out the things to be improved in the B&amp;B. ”</li> <li>• “We learned that we need to be very careful when communicating our suggestions to the B&amp;B operators.”</li> <li>• “Working on a consulting project, you need to be well-prepared and develop your credibility so that your clients can trust you and accept your suggestions.”</li> </ul>  |
| <i>Cultural preservation in tourism destinations is a worthy value</i>                          | <ul style="list-style-type: none"> <li>• “I got to experience the beauty of Taitung and how it is related to tourism development.”</li> <li>• “I learned about the importance of local culture/natural resources.”</li> <li>• “By participating in this community-based project, I began to understand the issues regarding tourism in Taitung and realized it took effort to develop tourism.”</li> </ul>   |
| <i>Community engagement should be a personal goal for hospitality students</i>                  | <ul style="list-style-type: none"> <li>• “While working on the B&amp;B project, I had the opportunity to meet with college volunteers from the United States. They came all the way to Taitung to teach children English during their break. I feel so shameful about myself. Being a college student, I did so little in returning something to society. I was so touched and inspired by their passion and enthusiasm in helping our people here. If it is possible, I would volunteer more.”</li> </ul>   |
| <i>Social networking is an opportunity to take advantage of</i>                                 | <ul style="list-style-type: none"> <li>• “I was so thrilled that even though we were just students, Mr. X treated us like VIPs. He invited us to sit down and eat with him. He called us by our names and afterwards we all received a copy of his book with his autograph.”</li> <li>• “Some of the B&amp;B operators were not so polite.”</li> <li>• “One of the B&amp;B operators we met was also a local tour guide. He even spent time to show us several amazing scenic spots where tourists usually won’t go.”</li> <li>• “By participating in this consulting project, I had the opportunity to meet and know people from different areas, including business, academia, arts, and government.”</li> </ul> |
| <i>Entrepreneurship or small business ownership requires personal goals and business acumen</i> | <ul style="list-style-type: none"> <li>• “Many of the B&amp;B innkeepers opened their B&amp;Bs because they had a dream to make their homeland better. I was so touched by their love of this land and their country’s people.”</li> <li>• “I was moved by their (B&amp;B innkeepers) passion for making their dream come true. I learned that with this passion, something can be achieved.”</li> <li>• “From my conversations with the B&amp;B owners, I realized that it takes knowledge and skills to run a successful business. If I am going to open a B&amp;B, I will make sure that I have basic management skills and have a good control of cost.”</li> </ul>  |

(c) Student reflections on learning that took place

With regard to what the students reported learning both while the projects were underway and after they had finished, the researchers identified the following student self-reported learning outcomes:

- (1) *Hospitality business skills*: gained knowledge of B&B operations, tourism development, aesthetic appreciation of property layout and design.

- (2) *Consulting skills*: developing training materials, problem-solving and critical thinking skills; communication skills; leadership skills; coordination skills; people and community service skills; conflict-management skills; and teamwork skills.
- (3) *Entrepreneurial skills*: being creative; increased confidence in pursuing a dream.
- (4) *Personal and career development*: increased maturity, being more appreciative of what they have, having a greater sense of achievement and life enrichment.

Comments exhibiting meta-level awareness of about learning as a process and the project's usefulness in student learning were also evident:

- "I learned to evaluate things around me from different perspectives."
- "This experience has broadened my view of the world. I was so stimulated and did not want to become a frog living in a well."
- "This is the first time I have participated in community-based work. I enjoyed it very much and will continue to participate in similar projects."
- "I feel so good that I was able to help others by applying what I had learned at school. I will definitely do more community-related work in the future and will encourage my friends to participate in similar community projects."
- "I realized that I have to learn more so I will have the knowledge to help more people."
- "I feel I was like a sponge and wanted to learn as much as I could." "I learned concepts about aesthetics and became interested in it. I would like to learn more about this."

All of the students agreed that this real life experience had an impact on their career aspirations. Examples include:

- "This experience inspired me to consider a career with a non-profit organization."
- "After participating in this community-based project, I discovered my interest in training. Even though I always wanted to become a chef, I think I may be able to teach culinary skills."
- "I found out that I should not limit my career choice to one. There are so many different career choices for me to pursue."
- "I have a new perspective regarding the service industry."

### **Implications of the Case Study**

Of particular concern for the authors was the role of student reflection in the consulting project, and particularly the refinement of the concept and necessity of "guided reflection." We have demonstrated that there is little difficulty in incorporating student reflection into a student consulting project directed toward small businesses in the hospitality field. It is the design of the student reflection activity or assignment as well as the statement of learning goals for the course that must be carefully examined.

From our results, we see that students respond actively to reflection prompts and do not resist sharing thoughts, either positive or negative about the consulting experience or about learning from the experience. Students are also able to provide reflective statements that are coherent and representative of course-related theoretical principles and intended learning outcomes when they know what the course is about, i.e., a hospitality consulting project within a tourism development context. Reflection statements in our study largely addressed hospitality concepts relevant to improved property quality and customer service for the advancement of tourism in the study region. There was also evidence of significant influence from local leaders who communicated community engagement values to the students. The facts that students repeatedly expressed commitment to future community service projects, and that one student might seek a non-profit career avenue, suggest that students are strongly influenced by instructors and authoritative figures when they reflect upon experiences.

What was absent, however, was acknowledgement of significant learning about small business operations or about entrepreneurial thinking. Since the instructors posed the project challenge as one of improving physical assets and hospitality operations for tourism development in Taiwan, the students concentrated their reflective activity and learning on those aspects of the course. Any observations on the small business nature of the B&Bs tended to focus on the gaps in hospitality expertise and lack of capital resources evidenced by the B&B owners. Students commented more on the unprofessionalism or lack of sophistication of the operations from a hospitality quality vantage point, than on the entrepreneurial qualities of self-employment, risk, and creativity, often discussed in courses in entrepreneurship.

The absence of any significant reflection on small business concepts when the entire project was designed to assist small business operators is revealing, implying that as instructors, what we ask the students to see, is what students will see. This result also brings into question the concept of being exposed to natural experiential settings versus being exposed to rigorously prescribed learning experiences with guided reflection. If being placed in continuous close contact with small business owners is not sufficient to engender significant reflection about small business concepts, then we must ask what will generate this type of reflective activity. Our findings suggest that guided reflection prompts that clarify the expected entrepreneurship learning outcomes of a course are a critical tactic to assure learning about small business and entrepreneurship in student consulting projects that take place with small businesses.

### **Conclusion**

This paper describes a student consulting project designed to assist small hospitality business operators in Taiwan. Bed and breakfast owners in Taitung, Taiwan, benefited from the committed efforts of students and faculty members from a local university, in that hospitality students offered advice to help B&Bs enhance their property quality and customer service. Reflection data showed that the students experienced personal growth and developed a greater sense of confidence in applying hospitality and tourism skill sets. On the whole, this study reinforces the advantages of experiential education in preparing students to be competent professionals and encourages educators to consider guided reflection as a valid technique for hospitality education.

Several factors may have contributed to the success of this experiential learning experience. First, a careful placement procedure was adopted. Instructors screened interested students and selected the ten who were believed to best fit the project. Two, the content of the consulting project allowed students to apply skills they had previously acquired in the classroom. Third, the support of the community made the students feel welcome and validated the importance of their consulting work. Fourth, instructors were on site to supervise students and provide guidance. Instructors continually assigned tasks to challenge the students. Fifth, the students were continuously asked to reflect on their activities and learning, following the tenets of the experiential learning cycle model, that suggests reflection between experience and future experimentation is a necessary step in the learning process.

However, while the experiential learning examined in this case placed students in a real-world setting using consulting projects serving small business clients, little specific learning about small business and entrepreneurship was documented in student reflections collected over the course of the project. The authors conclude that reflection assignments must be carefully tailored to learning outcomes; merely placing students in an environment does not seem to be sufficient to guarantee students will respond to all available environmental cues. It is more likely students will be selective of cues based on their assumptions of the core learning goals for the course or learning experience.

## References

- Alliance Cultural Foundation (2010). Bed and Breakfast Management Handouts. Retrieved April 10, 2011, from [http://www.thealliance.org.tw/file/download\\_b/a03\\_01f.pdf?bdownload\\_id=2](http://www.thealliance.org.tw/file/download_b/a03_01f.pdf?bdownload_id=2)
- Ames, M. D. (2006). "AACSB international advocacy of experiential learning and assurance of learning- boom or bust for SBI student consulting." In L. Tombs, (ed), USASBE/SBI 2006 Joint Conference Proceedings, January 12-15, 2006, Tucson, AZ.
- Ash, S. L., & Clayton, P. H. (2004). The Articulated Learning: An Approach to Guided Reflection and Assessment. *Innovative Higher Education*, 29(2), 137-154.
- Atkins, S. & Murphy, K. (1994). Reflective Practice. *Nursing Standard*, 8(39), 49-56.
- Atherton, J. S. (2002). Learning and teaching: Learning from experience. Retrieved from <http://www.dmu.ac.uk/~jamesa/learning/experien.htm>
- Aukes, L. C., Geertsma, J., Cohen-Schotanus, J., Zwierstra, R. P. & Slaets, J. P. J. (2008). The effect of enhanced experiential learning on the personal reflection of undergraduate medical students. *Medical Education on Line*, Retrieved from <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2779594/>
- Billett, S. & Ovens, C. (2007). Learning about work, working life and post-school options: guiding students' reflections on paid part-time work. *Journal of Education and Work*, 20(2), 75-90.
- Bogo, M., Regehr, C., Katz, E., Logie, C., & Mylopoulos, M. (2011). Developing a tool for assessing students' reflections on their practice. *Social Work Education*, 30(2), 186-194.
- Boud, D., Keogh, R. & Walker, D. (eds) (1985). *Reflection: Turning Experience into Learning*. London: Kogan Page.
- Burn, K., H. Hagger, & T. Hutton. (2000). Beyond concerns with self: The sophisticated thinking of beginning student teachers. *Journal of Education for Teaching*, 26 (3), 259-278.
- Cook, R. & Belliveau, P. (2006). *The Experiential Student Team Consulting Process*. Indianapolis: Dog Ear Publishing.
- Dewey, J. (1910). *How We Think*. Mineola, NY: Dover Publications Inc.
- Dewey, J. (1938). *Experience and Education*. New York, NY: Touchstone.
- Epp, S. (2008). The value of reflective journaling in undergraduate nursing education: A literature review. *International Journal of Nursing Studies*, 45 (9), 1379-1388.
- Eyler, J. (2002). Reflection: Linking service and learning- linking students and community. *Journal of Social Issues*, 58(3), 517-534.
- Eyler, J., & Giles, D. E. Jr. (1999). *Where's The Learning In Service-Learning?* San Francisco: Jossey-Bass.
- Ferrari, M. & Sternberg, R. J. (1998). *Self Awareness: Its Nature and Development*. NY, London: The Guilford Press.
- Greenaway, R. (2002). Experiential learning cycles. Retrieved from <http://www.wilderdom.com/experiential/elc/ExperientialLearningCycleReferences.htm>.
- Grossman, R. (2009). Structures for facilitating student reflection, *College Teaching*, 57(1), 15-22.
- Hegarty, J. A. (2011). Achieving excellence by means of critical reflection and cultural imagination in culinary arts and gastronomy education. *Journal of Culinary Science & Technology*, 9(2), 55-65.
- Heriot, K. C. & Campbell, N. D. (2002). Starting new small business institute programs: A survey of new programs begun since 1996. *Journal of Small Business Strategy*, 13 (2), 90-96.
- Kolb, D. A. (1984). *Experiential Learning: Experience as the Source of Learning and Development*. Englewood Cliffs, NJ: Prentice Hall.
- Kolb, A. Y. & Kolb, D. A. (2005). Learning styles and learning spaces: Enhancing experiential learning in higher education. *Academy of Management Learning and Education*, 4 (2), 193-212.

- Lewin, K. (1951). *Field Theory in Social Sciences*. New York: Harper & Row.
- Loughran, J. J. (2002). Effective reflective practice: In search of meaning about learning and teaching. *Journal of Teacher Education*, 53(1), 33-43.
- Madison, T. & Junell, S. (1998). SBI clients perception of student consulting projects: An empirical model. Retrieved from <http://www.sbaer.uca.edu/research/asbe/1998/pdf/15.pdf>
- McClam, T., Diambra, J. F., Burton, B., Fuss, A., & Fudge, D. L. (2008). An analysis of a service-learning project: Students' expectations, concerns, and reflections. *Journal of Experiential Education*, 30 (3), 236-249.
- Mezirow, J. (1990). How critical reflection triggers transformative learning. In J. Mezirow (Ed.), *Fostering critical reflection in adulthood* (pp. 1-18). San Francisco: Jossey-Bass.
- Molee, L. M., Henry, M. E., Sessa, V. I., & McKinney-Prupis, E. R. (2010). Assessing learning in service-learning courses through critical reflection. *Journal of Experiential Education*, 33(3), 239-257.
- Moon, J. A. (2002). *Reflection in Learning & Professional Development*. London: Kogan Page.
- Neill, J. (2004). Experiential learning & experiential education philosophy theory, practice & resources. Retrieved from <http://www.wilderdom.com/experiential/elc/ExperientialLearningCycle.htm>
- O'Connell, T. S., & Dymont, J. E. (2006). Reflections on using journals in higher education: A focus group discussion with faculty. *Assessment and Evaluation in Higher Education*, 31(6), 671-691.
- Quinton, S. & Smallbone, T. (2010). Feeding forward: using feedback to promote student reflection - a teaching model, *Innovations in Education and Teaching International*, 47(1), 125-135.
- Rainsford, P. (1992). The Small Business Institute: Hands on learning. *Cornell Hotel and Administration Quarterly*, 33(4), 73-76.
- Roberts, T. G. (2006). A philosophical examination of experiential learning theory for agricultural educators. *Journal of Agricultural Education*, 4(1), 17-29.
- Rogers, R. R. (2001). Reflection in higher education: a concept analysis. *Innovative Higher Education*, 26(1), 37-57.
- Sadler, D. R. (1989). Formative assessment: Revisiting the territory. *Assessment in Education: Principles, Policy and Practice*, 5(1), 77-85.
- Schon, D. (1987). *Educating the Reflective Practitioner*, Jossey-Bass, San Francisco.
- Sessa, V. I., Matos, G., & Hopkins, G. A. (2009). Evaluating a college leadership course: What do students learn in a leadership course with a service-learning component and how deeply do they learn it? *Journal of Leadership Education*, 7(3), 167-200.
- Shepherd, D. A., & Douglas, E. J. (1997). Is management education developing or killing the entrepreneurial spirit? Retrieved from <ftp://ns1.ystp.ac.ir/YSTP/1/1/ROOT/DATA/PDF/SME/dshepherd.pdf>
- Smith, R., & Pilling, S. (2007). Allied health graduate program - supporting the transition from student to professional in an interdisciplinary program. *Journal of Interprofessional Care*, 21(3), 265-276.
- Sonfield, M. (2008). SBI Consulting: 'Small Business' versus 'Entrepreneurial' performance outcomes. *Small Business Institute Journal*, 1(1), 62-75.
- Stefani, L. A. J., Clarke, J., & Littlejohn, A. H. (2000). Developing a student centered approach to reflecting on learning. *Innovations in Education and Training International*, 37(2), 102-110.
- Sternberg, R. J., & Williams, W. M. (1998). *Intelligence, Instruction, and Assessment: Theory into Practice*. Mahway, N.J.: L. Erlbaum Associates.
- Sutton, M. J. D., McFarland, C., Sanchez, N., & Vuyovich, J. (2012). Using Coaching Ourselves as a Management Development Tool in an Experiential MBA Course: A Case Study in Applying Reflection as a Learning Strategy for Enhancing Engagement. *International Journal of Business, Humanities & Technology*, 2(1), 8-17.

- Wallman, A., Lindblad, K., Gustavsson, M., & Ring, L., (2009). Factors associated with reflection among students after an advanced pharmacy practice experience (APPE) in Sweden. *American Journal of Pharmaceutical Education*, 73 (6), 1-12.
- Walmsley, A., Thomas, R., & Jameson, S. (2006). Surprise and sense making: undergraduate placement experiences in SMEs. *Education + Training*, 48 (5), 360-372.
- Yost, D. S., Sentner, S.M., & Forlenza-Bailey. A. (2000). An examination of the construct of critical reflection: Implications for teacher education programming in the 21st century. *Journal of Teacher Education*, 51(1), 39-49.

# **Indigenous Entrepreneurship Among the Boruca in Costa Rica: A Cultural Perspective**

Bella Galperin, The University of Tampa  
Cecilia McInnis-Bowers, Rollins College

## **Abstract**

More recently, there has been an increased interest in indigenous entrepreneurship due to the potential to improve the economic and social well-being of communities. The purpose of this paper is to explore indigenous entrepreneurship among the Boruca in Costa Rica from a cultural perspective. Based on field research and in-depth interviews, the results suggest that the establishment of successful indigenous business enterprises have promoted economic independence and have led to the strengthening and preservation of the Boruca culture rather than the weakening of past traditions.

## **Introduction**

Most research on entrepreneurship focuses on non-indigenous small businesses. The entrepreneurship literature has centered on the activities of millions of people who have contributed economically and socially to mainstream society. Similar to the creation of non-indigenous small businesses and entrepreneurial ventures, self-employment is a path to increased economic survival of indigenous people (Peredo, Anderson, Galbraith, Honig & Dana 2004). Despite the benefit of entrepreneurship for indigenous people, the field of indigenous entrepreneurship is a new area which remains underdeveloped (Wood, Davidson & Fielden, 2012).

Indigenous entrepreneurship studies have largely been conducted in North America and have focused on Native American Indians and Canadian Inuit (Steinman, 2005). More recently, researchers have examined indigenous entrepreneurs, such as the Maori in New Zealand (Frederick, 2006), the Sami community in Sweden (Udén, 2008), and Aboriginal and Torres Strait Islanders in Australia (Wood & Davidson, 2011). Surprisingly, despite the proximity to the United States, indigenous entrepreneurship among the Boruca in Costa Rica remains unexplored. The limited literature on the Boruca is largely in the popular press or other academic disciplines.

When examining indigenous entrepreneurs in the global context, culture is an important factor to consider. While culture is important in global entrepreneurship, it is a central variable in indigenous entrepreneurship since the indigenous people have resilient feelings toward self-determination, their land, and their heritage (Lindsay, 2005). Due to the strong indigenous culture, the cultural context remains a key factor that influences new venture creation and behavior among indigenous entrepreneurs.

The purpose of this paper is to explore indigenous entrepreneurship among the Boruca in Costa Rica from a cultural perspective. Using social marginality theory, we propose that social isolation have propelled the Boruca to start new ventures in craft-making, such as masking carving and tapestries. The results of the field research and in-depth interviews suggest that the establishment of successful indigenous business enterprises have promoted economic independence and have led to the reinforcement of the Boruca culture rather than the dwindling of past traditions.

In this paper, the literature on indigenous entrepreneurship is first reviewed. Using social marginality theory, entrepreneurship in the Boruca context is then discussed. Based on a cultural perspective, the findings of field study and in-depth interviews are presented. Finally, theoretical and practical implications are highlighted.

## Indigenous Entrepreneurship

### Definitions

Although there is no universal definition of the phrase “indigenous people”, most descriptions stress that indigenous people are cultural groups that have a historic continuity with a region prior to the colonization (Frederick, 2008). In general, indigenous people have lived independently and have been isolated from the impact of the larger nation-state. These cultural groups have maintained some of their distinct linguistic, cultural, and social characteristics. While many indigenous groups have depended on subsistence-based production and live in non-urban societies, indigenous groups today rely on business in urban locations.

For the purposes on this paper, Anderson, Honig and Peredo’s (2006) definition of indigenous entrepreneurship is used. Anderson et al. (2006, p. 57) defines indigenous entrepreneurship as “the enterprise-related activities of indigenous people in pursuit of their social/cultural self-determination and economic goals”. The authors further suggest the intersection of economic and social goals.

Given the overlap between the three areas (economic, social, and indigenous), Tapsell and Woods (2008) examine the connections between economic entrepreneurship, social entrepreneurship, and indigenous entrepreneurship. First, economic entrepreneurship is the process of identifying, shaping, and pursuing market opportunities and remains an important factor in entrepreneurship research (Gaglio, 1997; Shane & Venkataraman, 2000). Opportunity identification is a first step as the economic entrepreneur finds profit opportunity and resources to exploit them. Social entrepreneurship, on the other hand, is the “construction, evaluation, and pursuits of opportunities for transformational social change carried by visionary, passionately dedicated individuals” (Roberts & Woods, 2005, p.49). Social entrepreneurs are motivated to fill a social need. Conversely, economic entrepreneurs are motivated to address a financial need.

Based on the above, one can see that the indigenous entrepreneur is driven by the fulfillment of both economic and social needs, however, the role of the community/tribe/collective remains a key driver as well. In the section below, a brief literature review of indigenous entrepreneurship is provided.

### Review of the Literature

As noted above, most of the literature has focused on indigenous groups in North America, such as Native American Indians and Canadian Inuit. For example, Dana and Anderson’s (2007) ethnographic study used field interviews and photography to describe the North American indigenous community of Taos Pueblo. Their findings suggest that entrepreneurship was linked to traditional Promethean values (e.g. disciplined work ethic), a characteristic of Pueblo Indians which was established prior before the arrival of the Europeans. These values were passed down from generation to generation and may have been an important factor in entrepreneurial behavior today.

There have been more studies around the globe that have examined indigenous entrepreneurship. Similar to Dana and Anderson (2007), Madichie, Nkamnebe, and Idemobi’s (2008) study on the Nnewi culture of the Anambra State of Nigeria also found the importance of cultural traits which have spurred entrepreneurial emergence and success. Unlike the larger Nigerian context, there has been rapid and sustained growth of small and medium sized indigenous businesses (employing over 50 people). Madichie et al. (2008) found that indigenous values, such as prudence, individualism, and innovativeness, contributed to the entrepreneurial behavior.

Tapsell and Woods (2008) also highlight the importance of the cultural and social context of the Maori in New Zealand. The researchers found that the generational relations between the opportunity seeking *potoki* (young adults) and the *rangatira* (elders) have contributed to the survival of new business ventures among the Maori. Kokkranhi and Morrison’s (2002) research on sustainable tourism of the Kerala indigenous culture in India gives an example of how self-employment and small-scale enterprises provided economic

and social benefits with respect to development of houseboats as a tourism product in Kerala. On the other hand, Wood and Davidson's (2011) study on Australian indigenous entrepreneurs highlight the economic motivators in the development of small business entrepreneurship. The desire to improve poor economic conditions, negative racial stereotyping, discrimination, and prejudice were key drivers in the development of indigenous small businesses.

Based on the above, one can see that studies on indigenous entrepreneurship have provided us with glimpses into the social and economic motivations of entrepreneurs around the globe. While our understanding of indigenous entrepreneurship has grown, there is limited knowledge of indigenous entrepreneurship among in Boruca in Costa Rica. As noted above, this qualitative study examines indigenous entrepreneurship in a Boruca context. The research methodology is described below.

### **Methodology**

Given the exploratory nature of the topic (Gummesson, 1991), various methods were used to study indigenous entrepreneurship among the Boruca. Field research over a period of four years (2008 to 2012) and in-depth semi-structured and unstructured interviews among key nine informants were conducted. The combination of these qualitative methods provided a rich description of the phenomenon, actors, and context (Yin, 1993). Moreover, these methods contributed to the process of familiarization and discovery (Hampton, 1999) and the opportunity to gain insights into the historic and contemporary dimensions of the research context.

#### *Overview of the Research Context*

Costa Rica, one of five Central American countries, has eight indigenous communities. The indigenous population was first counted in the Costa Rica during the 2000 Census, totaling 64,000 (1.7% of the total population). When counted in the 2011 Census, the total was 60,000 (1.4%). Costa Rica has earned the highest ranking in national income and literacy in Latin America and the lowest in infant mortality, malnutrition, low birth weight, and maternal mortality (INEC, 2011). Unfortunately, the indigenous communities have not equally shared in these development statistics. While 90% of Costa Rica has potable water and electricity, much of the 3% without these necessities are found in the indigenous communities (Hurforth, 2007).

The Boruca (also called Brunca, Brunka or Borunca) are a tribe of roughly 2,000 in the pacific costal regional and mountains of Costa Rica in the Puntarenas province. Since Costa Rica was the midway point between the Mayan and Inca, two dominate cultures, gold and jade were transported between these cultures and hence passed through across the region of Costa Rica. As a result, the tribes in Costa Rica not only mined gold from the rivers but also worked the gold and jade by molding and carving the substances into objects of status and worship. As craftsmen or artists, the tribes added value to the raw materials and increased wealth for the tribes as they engaged in trade. Items produced from this region have been found throughout South America, Mexico and in Central America.

Living on their land for over 3000 years with the proud history of successfully defending themselves against the conquistadors in the 1500-1600s, the Boruca have become marginalized over time by the dominant culture and their way of life has eroded. In addition, the tribe has increasingly been isolated and faced poverty. As with all indigenous tribes, the Boruca have become progressively marginalized at economic, political, geographical and social levels.

The living conditions of the Boruca were similar to any one of the other seven indigenous tribes of Costa Rica. As noted above, the indigenous have higher infant, child, and general mortality rates and higher rates of malnutrition and infectious disease than the general population. Contributing to these problems are the geographic isolation, lack of infrastructure, spread-out villages, and pollution from banana plantations that are close to some reservations (Hurforth, 2007).

Nevertheless, living conditions have improved markedly on Boruca land compared to other indigenous communities. The Boruca place emphasis on the land because it gives them identity, but they value family togetherness and connections among the community gives life meaning. Unfortunately, additional encroachments upon the land have continued to occur from corporate fruit plantations and a hydro-electric dam project (Zueras, 2009, May 28). Enforcement of the law granting land rights is problematic.

### *Sample Description*

In-depth semi-structured and unstructured interviews were conducted with a sample of nine respondents in this study: Sonia, Manuel, Beliza, Claudio, Leda, all from an artisan family group; Ismael Gonzalez, 2002 Winner of Costa Rica's National Culture Award for resurrecting the traditional craft of Borucan masks, and Marina, textile artisan and lead developer of tourism on the reservation. Additional community members provided insights into the community's way of life in the course of on-site field study.

A snowball or chain referral technique was used. This method provides a sample through referrals made by individuals who share or know others who possess some characteristics that are of interest (Biernacki & Waldrof, 1981). Indigenous entrepreneurs made referrals to other indigenous entrepreneurs. Due to the close-knit community and challenge to get close to key informants, this method was applicable.

## **Results**

### *Boruca Entrepreneurship: A Response to Social Marginality*

Since the Boruca tribe is nested deep in the Talamanca Mountains, this geographic location has helped in preserving their culture; it has also contributed to social and economic marginality. Unlike many other indigenous tribes who were conquered by the Spanish, the Boruca people are proud to have survived the tensions between the native tribes and Spanish conquistadors in the 1500s and have kept their sense of cultural identity (Boruca, 2012). Demaris Morales, a school teacher noted, "We continue. We continue fighting because there are many things that strike us, that hit us and try to destroy us, but we continue to fight despite it all. We fight to maintain--to maintain our culture, to be united for the well-being of our culture." (Boruca, 2012).

The fight to survive and maintain the Boruca culture has not been an easy task. Similar other indigenous groups, the Boruca tribe is a self-sustaining agricultural village with a history troubled with poverty. In 2003, a journalist working for the United Nations, reported the conditions of the Boruca:

"Despite their cultural and artistic heritage, the Indians of the rain forest live very poorly, isolated in their villages. The majority of their houses, which roofs are made out of hay, do not have electricity and running water. The Indians sleep in hammocks, and cook rice and beans, their basic alimentation, on wooden stoves outside their home. The children do not have easy access to doctors, as they sometimes have to take a long boat ride to leave the jungle. Many suffer from the "papalomollo," otherwise known as the "mountain lepra." It is a skin infection due to some mosquito bites, eating the skin to a point where, if not treated by injections, holes appear, bigger and bigger every day." (Sévenier, 2003)

Not only are the indigenous poor, but they are not recognized in their country (Wherry, 2006). The tribes do not have any legislative representation in the country, and suffer from exclusion by the locals. As noted by George Gonzales, chief of the Boruca tribe, "Many people think of the indigenous as retarded people, dressed up with feathers... We have to find a way to be recognized and respected in our traditions." Very few people come to visit the Boruca community and are exposed to the culture. George's mother, Felicia Gonzales, explains that there are seldom groups of foreigners who visit and the nationals even ignore the existence of the indigenous world." (Sévenier, 2003).

The eight ethnic indigenous groups do not have any legislative representation in Costa Rica. In 1973, the government created CONAI, the National Commission for Indigenous Issues. However, it is ineffective in its political representation. The Costa Rican government is planning on building a hydro electrical plant that will be operational in 2016. Construction will flood some indigenous reserves in the southern region of Costa Rica, home to the Boruca. The government plans to relocate the effected tribes. This project and the disregard for the tribes rights represents a pattern of failure to enforce Costa Rica's indigenous laws granting sovereignty over the reserve lands.

According to social marginality theories such as Erickson (1975) and Merton (1975), many self-employed come from socially and economically marginalized populations. Scase and Goffee (1980) argue that entrepreneurs may more likely to emerge when they belong to groups that are deprived or marginal, such as groups that discriminated, prosecuted, looked down and exploited. Due to the discrimination of the group, individuals are more likely to be driven to start a new venture to compensate for the shortage. Holmes and Zimmer (1994) state that the response to social marginality provides small business owners the motivation to work long hours for little reward. The application of social marginality theory has been applied to indigenous entrepreneurs in Colombia, Indonesia, and Philippines to name a few.

While support of social marginality theory has been mixed among indigenous entrepreneurs globally (Frederick, 2008), the theory provides a nice theoretical framework to better understand the emergence of entrepreneurship in the Boruca context. As described above, the Boruca have been marginalized and faced with adversity. In an attempt to compensate for these adverse conditions, the Boruca have started small business ventures in artisan and craft-making. As the Boruca gained recognition as artisans, they opened ethno-tourism partnerships with tour operators in the Quepos and the Ossa Peninsula, major foreign tourist destinations.

Approximately, 80 to 90% of the families in the pueblo of Boruca derive their living from arts and crafts. The business model is generally informal. For example, Sonia leads a group of approximately 10 artisans who create masks; many are family members (e.g. father, mother, and a cousin) with each member providing value in the processes of resource procurement, production, order management, and distribution.

Sonia is married to Manuel for 32 years and the couple has 5 children, whose ages range from 8 to 32. Manuel worked in agriculture, however, 7 years ago started assuming more roles in Sonia's artisan business. In addition to mask production, Manuel handles procurement of raw materials, such as purchased wood and the cultivation of balsa tress for future harvest.

Sonia's children also grew up in the family business and contributed to the production of the masks by sanding, preparing for paint, and painting. Since Sonia's intention was for the children go to school, the support to the business was secondary. Sonia's daughter, studying for a degree in library science at the university in San Jose, a six hour distance, still provides a main conduit of client contact for orders. Clients email Sonia's daughter, she confirms the order with Sonia, and then sets up delivery.

Originally, Sonia was in a group of 8 women who learned to weave the Boruca traditional textiles. As time passed, the market demand was higher and it was more lucrative for the traditional masks to be carved by the Borucan men. Since she was culturally prohibited from carving the masks, she engaged Manuel. He started practicing his carving skills when he was not working in the fields. Due to increased demand beyond what the family group could produce with Manuel carving and painting the masks, Sonia branched out by networking with a variety of other artisans/craftsmen to purchase masks, in various stages of completion. She then assigned someone from her family/friend group to sand or to paint the unfinished masks.

Friday morning the members of the family/friend group return the masks and other artisan products, Sonia places the masks in boxes to carry to various destinations or to the nearest town to mail the boxes. Clients are found in cities such as, San Jose, Quepos, Puerto Jimenez, and Guanacaste. In essence, Sonia has become a production manager, wholesaler, and distributor of products for the group of artisans.

Sonia's business has grown and now brings in 90% her family income and has paid for university educations for her three eldest daughters and is keeping the other two children in high school and junior high with expectation of a college education, to become a "professional." It has also allowed for lap tops for her daughters attending university, cell phones for members of the family, and a large screen TV vibrantly connecting them with the world outside of Boruca.

### *Indigenous Women*

Traditionally, the Boruca people have survived on subsistence agriculture. As Borucan men earned wages as day laborers in the fields of others, life was hard for Borucan women. Men worked all day in the fields and the women had babies, tended to clothing and feeding the family, and managed a field of their own to feed the family. Marina commented, "Women had to figure everything out with no money".

The only future that existed for their sons was fieldwork. The father knew that the children needed to learn that life was hard work and the sooner they began to work, the better it was for themselves, and the family. Each working person brought money into the household. The men only knew to work the land that belonged to corporate pineapple, and banana corporations, or private farms in order to provide for the family. It was the future their fathers had given them; hard work was the survival skill that they had learned. Marina in reflection said, "My children's father thought school was a waste of time and didn't want the children to go to school. He wanted them to go to work. The opinions of women were not respected; there was a lot of machismo in our culture." As she discussed the tension in the homes of the women who were joining together to learn weaving and who were laying the plans to do something even bigger, she noted, "We wanted to organize, to be more than a group of women weaving".

Women were the first to be united, organized and resurrected the traditional textile crafts and sold them. This act led to the economic development of the community and the revival and survival of the tribe's culture. Marina reflected about the past, "We will be able to keep our children in school, they will not have to go into the fields. Maybe they will not need to leave [Boruca Reserva], maybe they will have a future here".

Sonia and Marina, with the small of group of women, relearned the skills of their ancestors, and those traditional textiles were produced and sold for a new purpose--tourist souvenirs. This commercial initiative led to a mind change that birthed a community of change-agents.

### *Cooperatives*

Frequently indigenous groups use cooperatives (Lituchy, Oppenheimer, O'Connell & Abaira (2007). In the earlier years (1978 to 1983), women seeking an economic future for their children and development of a sustainable community formed the Association de La Flor. It was a small group of eight women, learning to be artisans by producing the traditional woven textiles of the Boruca. La Flor originated as an association of women producing textiles for economic stability to largely enable their children to go to school. Over time, the cooperative became the centralized point of contact for those outside of Boruca. The name was significant:

"We named it La Flor because to Boruca, La Flor means the cotton flower," said Marina. It was the flower of the roots of their history over time, the textiles made of cotton that had clothed the tribe during past centuries and had become the source of their new future. Marina continued, "To be official and able to

engage the government with grants and administer the functions of business, we had to have a tax identification number.” The cooperative registered to be a formal organization and elected officers. Every member had a vote and raised money by organizing community bake sales and raffles to pay for a lawyer to work through the legal paperwork and processes.

During a period of 30 years, the number of women grew from eight in 1983 to approximately 40. The Boruca men saw the opportunity to commercialize their traditional craft of carving masks and a few men joined the association. In the beginning, the association became an entry point to receive calls and inquiries from the outside. Marina noted, "Someone would call and want us to set up a booth to sell our products at an arts and crafts fair or other community event. The association would call us, and three of us would collect the products from our people in our group and take them to the place to sell. We always went in three." The focus of La Flor became the preservation of the Boruca culture and interfacing with outside community. Schools, organizers of community fairs, festivals and others would call the association to arrange for a member of the tribe to do a cultural presentation demonstrating carving a mask and weaving the textiles. Sonia liked these opportunities and noted, "It lets people know about Boruca, our culture and someone always sees our products and from then calls us to buy them or put them in a store in town."

The cooperative was instrumental in giving an organizing influence, but as time went on, it became less influential in the commercial endeavors, but more so in the community action initiatives for development of a better school, health clinic, and community museum, and even developing into a micro finance leader for non-artisan small businesses located in the community. La Flor's purpose became resurrection and support for the Boruca culture: Marina noted, "Boruca did not have culture. It was dormant." Marina became the main contact person. Marina, as president of LaFlor (1983-2011), made arrangements for tourists to stay in a home, have traditional meals, meet artists and learn about the Boruca culture. There was no predictable number of tourists, it depended on the tour agencies bookings.

As Costa Rica's economic transition was embracing tourism, specifically eco-tourism, La Flor had become the point of contact for tour operators wanting to bring tourists into the community. Ethno-tourism or rural tourism, a growing segment of the tourist market, is designed to give the tourist insight into a people, its culture, and way of life. Over the 30 years, La Flor had a clear impact on the economy by increasing sales of crafts and focusing on both Costa Rica ecotourism and ethno-tourism.

#### *Cultural Change: The Revival and Reinvestment of Indigenous Culture*

In 2012, the pueblo is populated by family groups, whose houses are often built one after another, in close proximity to one another never separated by walls or fences. Three to five generations of a family live within a few steps and a short walk away from each other. Boundaries are drawn on a survey of individually owned plots, but foot paths wind through the pueblo through front yards, side yards, and back yards. Often ranchitos, open air, hay-roofed structures, are often built adjacent to the concrete homes with hammocks suspended, wood burning stoves of brick or stone, wash sink for dishes, tubs for washing clothes or sometimes washing machines. Some members of community use the ranchitos for the family business, the sales of the traditional arts and crafts and place signs outside saying, "Welcome to Boruca! Boruca Arts and Crafts for Sale." It is typical to have both the Spanish and English translation due to the tourist trade. Inside the concrete houses kitchens, tiled counters hold counter-top stoves, rice cookers, and other small appliances. Indoor bathroom plumbing exists with potable water. Some homes have internet, satellite dish TV, and cell phones are visibly evident. Children play video games, connect on Facebook, and Google. Some homes even have a car parked in the yard.

There are several pulperías, or corner stores, and food vendors travel into Boruca regularly, such as a man that goes door to door to sell pork. Quality life is evident with an active Catholic church, a community multi-use concrete plaza, a soccer plaza, and health clinic staffed with a physician three days a week. The grammar through high school schools are painted in shades of blues and divided into three sections: instructional classroom, eating faculty, and computer lab. There is a public bus that makes its way up the mountain two times per day with routes through the small villages and into the city of Buenos Aires. Children run and play, healthy and happy with no evidence of mosquito bites or other "rainforest" infections.

The current quality of life among the Boruca resulted from a shared vision by women to provide for their children. This future was made possible by looking back into the past and bringing forward the traditional crafts of the Boruca and reinventing them as souvenirs for Costa Rica's growing tourist sector. Margarita noted, "The community was going through a severe crisis because there was no economy to assist the families. There was a lot of poverty, and also a lot of discrimination towards women." Margarita continued to describe what it was like in the 1970s, "There were issues with malnutrition for children. A lot of youth migrated towards other parts of the countries because the village had nothing to offer to them".

A lot of changed from the 1070s. With the increase of indigenous entrepreneurship, there have been efforts to retain Boruca culture and traditions by incorporating culture classes in the school curriculum. Culture classes are theoretical and practical in nature. Students are taught the Boruca language, history, and legends as well as carving and other crafts (Boruca, 2012).

### **Discussion**

Peredo et al. (2004) argued that self-employment is a key path to increase economic survival of indigenous people. The indigenous will start entrepreneurial ventures and small businesses in an attempt to provide for themselves and their families when options to succeed may not exist. This qualitative study shows how the Boruca have started new ventures in craft-making, such as masking carving, drum making and weaving as a means of economic development.

In line with social marginality theory, the findings of this qualitative study suggest that that the geographic location and isolation living in the Talamanca Mountains, exclusion by the locals of their country, lack of legislative representation have propelled the Boruca to start new ventures in craft-making. Approximately, 90% of the families in the pueblo of Boruca derive their living from arts and crafts. Indigenous entrepreneurship, however, encompasses more than economic entrepreneurship. Indigenous entrepreneurs engage in enterprise-related activities in the pursuit of social/cultural self-determination as well as economic goals.

The extensive field research over a period of four years, in-depth semi-structured and unstructured interviews, provided for a rich process to gain insights into the Boruca's quest to achieve social/cultural self-determination and economic goals. While the literature suggests that there can be negative impacts of business enterprise development on indigenous entrepreneurs, such as the increased cost of living, risk of decline in artistic quality and authenticity, exploitation of human and cultural resources (Mapunda, 2007), the Boruca have experienced cultural revival and preservation.

In an effort to fight the growing poverty, the Boruca managed to start the process of restoring the traditional craftsmanship and artisan roots, and the culture. Interestingly, the Boruca women were the first to producing the craft because they shared the motivation to increase the quality of life of their children. It was only when the women starting selling the handcrafts did the Boruca men were able to see the opportunity to commercialize the traditional handcrafts.

La Flor, an association of women producing textiles, was later established and it was transformed as the organization that preserves the Boruca culture which includes some men. La Flor have worked on development projects, such as the Boruca Museum supported by the National Gold Museum (Museo de Oro National). In addition, there are increasing efforts to retain Boruca culture and traditions by incorporating culture classes in the school curriculum. Culture classes are theoretical and practical in nature. Students are taught the Boruca language, history, and legends as well as carving and other crafts (Boruca, 2012). Below the theoretical and practical implications are discussed.

### **Implications**

This study contributes to the limited literature on indigenous entrepreneurship. While non-indigenous and indigenous entrepreneurs are similar in that the development of new ventures and small business are used as a strategy to enhance economic survival, studies have shown that there are significant differences between indigenous and non-indigenous entrepreneurship with respect to social and human development indicators (Frederick, 2008). This study provides a greater understanding of the challenges and successes of the Boruca entrepreneurs from a cultural context. Since there are currently only popular press articles and studies in other disciplines, we provide a deeper appreciation of the indigenous entrepreneurship in a Boruca society.

More specifically, the study also sheds light on the indigenous female small business entrepreneurs, an area with few and dated research studies. The findings of Boruca women entrepreneurs are in line with the literature, which have highlighted the important role women play in the indigenous community in decision making both social and political areas of society (Davis, 1992; Wood & Davidson, 2011). Future research studies should further explore gender relations as well as the new generation of aspirant entrepreneurial minded Boruca.

This study has practical implications. The results serve as a starting point to developing successful models of Boruca ventures and training programs to encourage entrepreneurship in the community. Future programs may incorporate the development of entrepreneurial attitudes and skills. However, it is crucial that the training programs are not developed from a non-indigenous perspective given the differences between the two groups.

### **Conclusion**

Despite the growing need to better understand indigenous entrepreneurship, little research on the topic exists. In line with social marginality theory, the Boruca have been marginalized and been faced with adversity. In an attempt to compensate for these adverse conditions, the Boruca have started small business ventures. This paper suggests that the establishment of successful indigenous business enterprises have promoted economic independence of the Boruca community and have led to the strengthening and preservation of the Boruca culture rather than the weakening past traditions.

### **References**

- Anderson, R.B., Honig, B., & Peredo, A. (2006). Communities in the global economy: where social and indigenous entrepreneurship meet. In S. Steyaert & D. Hjorth (Eds.), *Entrepreneurship as Social Change: A Third New Movements in Entrepreneurship Book*. Cheltenham: Edward Elgar.
- Biernacki, P. & Waldorf, D. (1981). Snowball sampling: Problems and techniques of chain referral sampling. *Sociological Methods and Research*, 10, 141-163.
- Boruca (2012). *Boruca: Behind the Mask*. Website donated by Elon University's Interactive Media MA. Retrieved from <http://www.boruca.org/en/>
- Dana, L.P. & Anderson, R. (2007). Taos Pueblo: an indigenous community holding on to Promethean values. *Journal of Enterprising Communities: People and Places in the Global Economy*, 1 (4), 321-326.

- Davis, E.R. (1992). The dominant female: politics in the local Aboriginal community. *Australian Aboriginal Studies*, 2, 34-41.
- Frederick, H. (2006). Global entrepreneurship monitor aotearoa New Zealand. *Unitec School of Management & Entrepreneurship Research Report Series*, 4 (1), Unitec New Zealand, Auckland. Retrieved from [www.gemconsortium.org](http://www.gemconsortium.org).
- Frederick, H. (2008). Introduction to special issue on indigenous entrepreneurs. *Journal of Enterprising Communities: People and Places in the Global Economy*, 2 (3), 185-191.
- Gaglio, C.M. (1997). Opportunity identification: review, critique and suggested research directions. In J.A. Katz (Ed.), *Advances in Entrepreneurship, Firm Emergence and Growth* (pp. 139-202), 3. Greenwich: JAI Press.
- Gummesson, E. (1991). *Qualitative Methods in Management Research*. Newbury Park, CA.: Sage.
- Hampton, A. (1999). Qualitative Data Analysis and Interpretation. In B. Brotherton (Ed.), *A Handbook of Contemporary Hospitality Management Research* (pp. 287-304). London: Wiley.
- Hurforth, A. (2007). *Case Study #3-2: Food Policy for Developing Countries*. Cornell University.
- INEC (2011). *Instituto Nacional de Estadística y Censos. Costa Rica Census 2011*. Retrieved from <http://www.inec.go.cr/>.
- Kokkranhi, J. & Morrison, A. (2002). Entrepreneurship and sustainable tourism: The houseboats of Kerala. *Tourism and Hospitality Research*, 4 (1), 7-20.
- Lindsay, N.J. (2005). Toward a cultural model of indigenous entrepreneurial attitude. *Academy of Marketing Science Review*, 5, 1-15.
- Lituchy, T., Oppenheimer, R., O'Connell, T. & Abaira, R.J. (2007). Mohawk First Nations: Successes and challenges of small business owners. In L.P. Dana and R. B. Anderson (Eds.), *International Handbook of Research on Indigenous Entrepreneurship* (pp. ). Cheltenham: Edward Elgar Publishing Limited.
- Madichie, N.O., Nkamnebe, A.D. & Idemobi, E.I. (2008). Cultural determinants of entrepreneurial emergence in a typical sub-Saharan Africa context. *Journal of Enterprising Communities: People and Places in the Global Economy*, 2 (4), 285-299.
- Mapunda, G. (2007). Entrepreneurship leadership and indigenous enterprise development. *Journal of Asia Entrepreneurship and Sustainability*, 3 (3), 1-27.
- Museo del Oro Precolumbino. (2012). *Permanent exhibit*. San Jose, Costa Rica.
- Peredo, A.M., Anderson, R.B., Galbraith, C.S., Honig, B. & Dana, L.P. (2004). Toward a theory of indigenous entrepreneurship. *International Journal of Entrepreneurship and Small Business*, 1, 204.
- Roberts, D. & Woods, C. (2005). Changing the world on a shoestring: the concept of social entrepreneurship. *University of Auckland Business Review*, 7 (1), 45-51.
- Sévenier, G. (2003). *The Indigenous tribes of Costa Rica*. Report for Géó: Hidden faces of Costa Rica (English version). Retrieved from <http://gsevenier.free.fr/publications.html>.
- Shane, S. & Venkataraman, S. (2000). The promise of entrepreneurship as field of research. *Academy of Management Review*, 25 (1), 217-226.
- Steinman, E. (2005). Legitimizing American Indian sovereignty: Mobilizing the constitutive power of law through institutional entrepreneurship. *Law and Society Review*, 39 (4), 17-31.
- Tapsell, P. & Woods, C. (2008). *Potikitanga*: indigenous entrepreneurship in a Maori context. *Journal of Enterprising Communities: People and Places in the Global Economy*, 2 (3), 192-203.
- Téllez, R. (2011, June 10). Indigenous Community Divided on Dam Project *TicoTimes.net*. Retrieve from [http://www.ticotimes.net/Current-Edition/Top-Story/News/Indigenous-community-divided-on-dam-project\\_Friday-June-10-2011](http://www.ticotimes.net/Current-Edition/Top-Story/News/Indigenous-community-divided-on-dam-project_Friday-June-10-2011)
- Udén, M. (2008). Indigenous women as entrepreneurs in global front line innovation systems. *Journal of Enterprising Communities: People and Places in the Global Economy*, 2 (3), 225-239.

- Wherry, F. (2006). The Nation-State Identify Management and Indigenous Crafts: Constructing Markets and Opportunities in North West Costa Rica. *Ethnic and Racial Studies*, 29(1), 124-152.
- Wood, G.J. & Davidson, M.J. (2011). A review of male and female Australian indigenous entrepreneurs. Disadvantages past-promising future? *Gender in Management: An International Journal*, 26 (4), 311-326.
- Wood, G.J., Davidson, M.J. & Fielden, S.I. (2012). *Minorities in Entrepreneurship*. Cheltham: Edward Elgar.
- Yin, R.K. (1993). *Applications of Case Study Research*. Newbury Park, CA.:Sage Publications.
- Zueras, D. (2009, May 28). Costa Rica: Indigenous people sidelined in hydro plants. *Global Information Network*. Retrieved from <http://search.proquest.com.esearch.ut.edu/docview/457540863?accountid=14762>.

# Is There a Tipping Point in Resource Network Size: How Large is Too Large?

Bruce Kemelgor, University of Louisville

## Abstract

External environments can require entrepreneurs to adjust and maintain network ties to cope with environmental changes. Although network ties can help entrepreneurs gain resources there are also negative aspects of networks, such as information redundancy. We examine the influence of environmental munificence and uncertainty as they affect the size of one's network. In addition, we surveyed 44 entrepreneurial founders of firms in the bio-technology industry regarding network size and firm performance. We found that environmental factors led to increases in network size. In addition, we identified an optimal number of network ties prior to tie-additions becoming negatively related to firm performance.

## Introduction

There is growing interest in the relationship between resource networks and various entrepreneurial outcomes (e.g., Hoang & Antoncic, 2003; Honig & Davidsson, 2000; Singh et al., 1999). Entrepreneurship scholars have shown that networks play a central role in gaining access to critical resources, including financial capital (Anderson & Jack, 2002), information about opportunities (Lechner, Dowling, & Welpel, 2006), identifying customers or suppliers (Adler & Kwon, 2002), and so forth (Uzzi, 1997). To gain the advantages of these networks, scholars have found that entrepreneurs invest considerable time and effort in developing and maintaining these kinds of social relationships (Granovetter, 1973). Thus, building a network is a *process* for which previous studies have shown that firms gain performance benefits from numerous ties with desirable partners (Hallen & Eisenhardt, 2012).

Given these findings, an important question becomes--how large should such networks be? On the one hand, larger networks are likely to create access to a wider range of resources than smaller networks (Nahapiet & Ghoshal, 1998). On the other hand, if networks become too large, the resources they make available to entrepreneurs may become redundant (Lechner et al., 2006). In addition, creating and maintaining social ties is costly in terms of an entrepreneur's time and cognitive capacity (Hallen, et al., 2012). Thus, networks that are too large may actually hurt a firm's overall performance.

Our study contributes to inter-organizational network theory and resource acquisition strategies of entrepreneurs by examining the relationship between network size and the entrepreneurial effects of networks. While some scholars have previously examined this latter issue, prior work has failed to control for other determinants of optimal network size (Slotte-Kock & Coviello, 2010) and has yet to examine the optimal size of such networks (Koka, Madhavan, & Prescott, 2006). This research addresses these limitations by examining the effects of changes in an entrepreneur's broader environmental context (e.g., changes in the munificence and uncertainty of that context) (Dess & Beard, 1984) on a network's size, along with examining network size and its impact upon firm performance.

## Literature Review And Hypotheses Development

### *Theoretical Background*

Entrepreneurship is an activity that involves the discovery, creation, and exploitation of opportunity (Venkataraman, 1997; Shane & Venkataraman, 2000). To achieve these, an entrepreneur's professional network and personal network (Lechner et al., 2006) can contribute directly to a venture's resource base, by allowing it to better attract human and financial resources (Florin, Lubatkin, & Schulze, 2003). As such, an entrepreneurial firm's engagement in a resource network will influence its economic and innovative performance (Ahuja, 2000; Rowley, Behrens, & Krackhardt, 2000; Owen-Smith & Powell, 2004).

Network theory emphasizes opportunities for tie formation and implies that direct and indirect ties provide information about tie opportunities and reduce uncertainty about the quality of potential partners (Gulati, 1995; Rider, 2011; Stuart, 1998). Social networks refer to a relationship with others based on strong personal connections with individuals, such as friends, relatives, and long-standing colleagues (Lechner et al., 2006). Business or professional networks consist of tie relationships established during the process of building the firm such as suppliers, customers or service providers (e.g. accountant) (Leung, 2003). Additionally, network ties refer to the frequency and intensity of relationships between members of one or multiple networks (Adler & Kwon, 2002). Generally speaking, network ties consist of strong ties and weak ties. Strong ties are described as high levels of interaction and dependence, such as family and friends, while weak ties refer to infrequent interactions and less intimate relationships, such as business connections (Elfring & Hulskink, 2007). An abundance of entrepreneurial research has confirmed that both ties can provide important resources to firms (Anderson, Jack, & Dodd, 2005; Pirolo & Presutti, 2010). On the one hand, strong ties can help entrepreneurs achieve performance faster, such as reaching profitability (Davidsson & Honig, 2003; Uzzi, 1997). On the other hand, weak ties can help entrepreneurs gain access to new information through ties that lie outside of an entrepreneur's immediate cluster of contacts (Hansen & Witkowski, 1995).

Network ties include the social interaction of individuals acting on behalf of their organizations, through relationships, connectedness, collaboration, collective action, trust and cooperation (Provan, Fish, & Sydow, 2007). Therefore, there is a need for entrepreneurs to explore and identify their network usage strategies (Wiklund, Patzelt, & Shepherd, 2009).

Networks will change according to different needs (Burt, 1992; Granovetter, 1995), and thereby entrepreneurs will expand or shrink the size of their network as part of their business decisions (Greve & Salaff, 2003). Thus, in this study we seek to identify if there is an optimal size for one's network to enable entrepreneurs to effectively manage their social capital and mitigate problems. To inform theory and practice, we also take environmental factors into consideration and identify the influence of the external environment on network size. We build on recent theoretical arguments regarding both social and professional networks and link them with environmental factors (Koka et al., 2006) to answer this research question. In particular, we argue that resource network ties should have an optimal number related to environmental factors and firm performance.

#### *Network Ties Size and Environmental Factors*

Entrepreneurs operate in environments where they are likely to experience rapid and intense challenges (Baron, 2007). Environmental pressures challenge resource availability, access and uncertainty (Hite & Hesterly, 2001) and are thereby one of the reasons that entrepreneurs endeavor to create resource network ties. We focus on investigating the size of the network in response to macro-environmental pressures (De Rond & Bouchikhi, 2004). Thus, we address the impact of the external environment which is defined as the total physical and social factors outside the boundaries of the organization that are taken into consideration when entrepreneurs are making decisions regarding the organization (Duncan, 1972).

There are two dimensions of the environment that affect resources available for network action: uncertainty and munificence (Castrogiovanni, 1991; Dess & Beard, 1984; Milliken, 1987). *Environmental uncertainty* refers to "the predictability of conditions in the organization's environment" (Miles & Snow, 1978, p.195). It describes both dynamism and complexity that an organization faces (Lumpkin & Dess, 2001). *Environmental munificence* is recognized by the availability or scarcity of resources in the environment (Aldrich, 1979; Dess & Beard, 1984). It refers to the level of resources in a particular environment that can support sustained growth, stability, and survival (Dess & Beard, 1984). Thus, it allows a firm to require resources such as raw materials, financial capital, labor, and customers (Aldrich, 1979) and intangible assets such as an industry's or geographic region's tacit knowledge (Agarwal, Audretsch, & Sarkar, 2007).

Koka et al. (2006) theoretically proposed patterns of network change when managers respond to changes in environmental uncertainty and munificence. We base our research on their propositions and propose hypotheses regarding the size of such networks under conditions of environmental uncertainty and environmental munificence. In addition to identifying an optimal size of the network related to firm performance, we presume and only study the situations that entrepreneurs, under certain external environmental influences, will be likely to increase tie creation and decrease tie deletion, causing network size redundancy and inefficiency. We study two situations: (a) an increase in both environmental uncertainty and environmental munificence; and (b) a decrease in environmental uncertainty and an increase in environmental munificence.

*Increase in environmental uncertainty and environmental munificence.* Environmental uncertainty influences an entrepreneur's decision making and behaviors. Researchers have argued that organizations must adapt to their environment if they are to remain viable (Pfeffer & Salancik, 1978). As a result, coping with environmental uncertainty is one of the most important issues entrepreneurs confront. Thus, in a highly uncertain environment, entrepreneurs need to engage in various actions to reduce the level of uncertainty. One way of doing so is through newly created social network ties that can bring essential resources for entrepreneurs who are in a resource-scarce position (Uzzi, 1997). For example, entrepreneurs will develop more weak or professional ties which have the advantage of providing greater resource availability and decreasing more environmental uncertainty (Hite & Hesterly, 2001). In addition, environmental uncertainty may also lead entrepreneurs to strengthen their strong social ties which can provide greater (trusted) assistance (Granovetter, 1982; Krackhardt, 1992). Thus, under an increase in environmental uncertainty, we argue that entrepreneurs strengthen extant social network ties and search for important professional weak ties. Yet, at a certain point, adding more ties may not be optimal.

Environmental munificence also affects an organization's resource availability. As environmental munificence increases, there is likely an increased amount of resources which provide firms with new business initiatives, e.g. network ties (Koka et al., 2006). Accordingly, firms will obtain benefits, such as becoming more able to pursue goals, when resources are abundant (Castrogiovanni, 1991). For example, when entrepreneurs can have access to social network ties that offer valued resources, it is easier for the entrepreneur to operate the business and pursue wealth creating goals. Thus, enlarging the number of social network ties potentially would lead entrepreneurs to reach additional financial resources, human resources or essential information. In addition, as munificence increases, the threat of new competition will increase (Dess & Beard, 1984; Porter, 1980). To defend against competition from new entrants, entrepreneurs need to search for ties that can assist in increasing barriers to entry (Koka et al., 2006). Due to the aforementioned explanations, we argue that professional network tie creation will increase while tie deletion will decrease as environmental munificence increases. On the one hand, entrepreneurs can obtain more resources when the environment favors them, and on the other, entrepreneurs will need to search for professional network ties that can help them face the threat of competitive entry.

Hypothesis 1: As environmental uncertainty and munificence increase, entrepreneurs will create more business and social network ties.

*Decrease in environmental uncertainty and increase in environmental munificence.* The second situation we investigate is the change of network size when environmental uncertainty decreases while environmental munificence increases. We have previously discussed the condition of increased environmental munificence, thus here we focus upon building a hypothesis around a decrease in environmental uncertainty.

According to Koka et al (2006), under this circumstance, entrepreneurs are able to predict the conditions where organizations operate and can pursue opportunities because resources are available. Specifically, uncertainty often causes the need to access certain resources, and re-examine specific routines (Hite &

Hesterly, 2001). However, as environmental uncertainty decreases and entrepreneurs can predict what their firms face, they will more efficiently acquire potential information about opportunities via their professional (weak tie) network. Though entrepreneurs need to create weak ties that can provide greater resource availability in a highly uncertainty environment, they also need to identify more weak ties when uncertainty decreases.

When every firm can predict and obtain resources, the ones who can have better access to others are more likely to enjoy better performance (Dubini & Aldrich, 1991). Under this circumstance, entrepreneurs not only need to acquire information that may be available to all competitors, but also acquire highly valuable and more proprietary information to better compete with others. As a result, entrepreneurs will increase their business or professional network ties. In building the network portfolio, tie deletion will decrease because as more resources become available to entrepreneurs through perceived desirable partners, tie deletions are unlikely to happen (Koka et al., 2006).

Hypothesis 2: As environmental uncertainty decreases and munificence increases, entrepreneurs will create more business or professional network ties.

#### *Network Ties Size and Entrepreneurial Firm Performance*

Facing changes in environmental uncertainty and environmental munificence, entrepreneurs obtain resources through establishing and maintaining their professional and social network ties. However, as entrepreneurs enlarge their networks to obtain critical information and resources from others (Greve & Salaff, 2003), the issue of network size emerges. With an increase in network size, the benefits of resource network ties are expected to be offset by the constraints of such networks (Adler & Kwon, 2002; Edelman et al., 2004). Accordingly, firms may benefit when they have a certain number of network ties, e.g. for resource acquisition (e.g., Aldrich & Zimmer, 1986; Greve & Salaff, 2003; Miller, Besser, & Malshe, 2007). Yet, adding more ties does not assure the entrepreneur of accessing desirable partners and therefore achieving an optimal level of performance (Hallen & Eisenhardt, 2012).

There is some empirical evidence that indicates certain kinds of ties bring disadvantages rather than benefits (Borgatti & Cross, 2003; Cross & Parker, 2004; Gargiulo & Benassi, 1999). For example, Bruderl and Preisendorfer (1998) found that strong ties, measured by support from friends and family, have a smaller impact on firms' economic growth. Similarly, Pirolo and Presutti (2010) empirically identified the negative impact of strong ties on the growth of a start-up's innovation performance. Their study confirms that too many close and strong social network ties can negatively influence the firm's ability to obtain significant benefits (Lesser, 2000; Uzzi, 1997). Jack (2005) used a qualitative study and asserted that entrepreneurs who extensively relied on strong ties and strong family bonds limited the ability of those entrepreneurs to realize significant business opportunities. Therefore, empirical findings suggest that entrepreneurs who rely on strong network ties to enlarge their resource network may eventually incur negative firm performance.

Given the aforementioned arguments, we suggest that there is an inverse U-shaped relationship between the size of one's social network and an entrepreneurial firm's performance. As social network ties increase from a low to moderate level, the entrepreneurial firm's performance increases. However, beyond a moderate level, social network size has a negative effect on firm performance. Thus, we propose the following hypothesis:

Hypothesis 3: There is an inverted U-shaped relationship between an entrepreneurial firm's performance and its social network size.

## Methods

### *Data*

Greve and Salaff (2003) demonstrated that entrepreneurs build networks that systematically vary by the phase of entrepreneurship. In addition, because network size differs across both individuals and populations (Bernard et al., 1990; Stiller & Dunbar, 2007) and varies significantly among industries (Rosenkopf & Schilling, 2007), we only involved entrepreneurs whose firms are from two to seven years old. We selected entrepreneurial firms at this early life cycle stage to obtain insight into the process that founders take in the face of such environmental change to enhance their network and competitive position (Madhavan, Koka, & Prescott, 1998). In addition, we focused on selecting entrepreneurs who founded firms in the biotechnology industry (e.g., research labs, medical device companies) to decrease the potential for variance across industries. Prior research (e.g. Eisingerich, Bell, & Tracey, 2010) has found that environmental factors significantly influence the biotechnology industry.

Beginning in late summer and extending into the fall of 2011, we contacted entrepreneurial firm founders (sole founders or team-lead) in the biotechnology industry. They were invited to participate through e-mail invitations initially distributed by area entrepreneurship centers. Follow-up reminders and e-mail blasts were employed over a 2-month period. We sent e-mail invitations to 72 individuals, eventually resulting in 56 survey responses. They represent active firms in four distinct metropolitan areas in four different states in the US. Of the original 56 respondents, 44 completed surveys were deemed useable (12 were dropped due to incomplete data). To avoid non-response bias, we employed Armstrong and Overton's (1977) methodology wherein early respondents were compared with late respondents. We found they were not different.

We employed retrospective judgment analysis (Karelaia & Hogarth, 2008) and offer a longitudinal perspective to understanding networks. The number of network ties reflects the entrepreneurial firms' changing needs in a required context (Larson, 1991). We next introduce the specific approach used to measure our variables.

### *Dependent Variables*

*Firm performance* - Respondents were asked about their firms' performance after they adjusted (i.e. either added or deleted) the number of network ties. We used one objective measure, sales growth in percentage to capture firm performance. We asked respondents to report their firm's performance before and after they had adjusted (i.e. added or deleted) their network ties when faced with the significant environmental change.

### *Independent Variables*

*Size of network* is defined as the number of people that entrepreneurs turn to when they discuss aspects of establishing and running a business (Renzulli, Aldrich, & Moody, 2000) to acquire resources. These people are not employed by the entrepreneurs. Specifically, we asked the entrepreneurs about the number of network ties in eight categories: close family members, other family members, close friends, and acquaintances in their social network, as well as business associates, suppliers, distributors, competitors, bankers, lawyers, and other professionals in their business network. We defined close family as people in an entrepreneur's household and other family as extended relatives with whom the entrepreneurs are legally or biologically related. Friends are people who offer ideas, advice, or other similar assistance, but the entrepreneurs have never worked with them in a professional capacity. Business associates are people with whom the entrepreneurs currently have, or have had in the past, a business relationship.

*Environmental uncertainty* was assessed according to Lonial and Raju's (2001) measurement on environment uncertainty and based on Duncan's (1972) description of external environmental uncertainty. They measured environment uncertainty using eleven items, including suppliers of materials, suppliers of

capital equipment, customers, and so forth. Using these items, we asked the entrepreneurs to respond by using a five point Likert scale focusing on competitors, customers, hiring, government regulation, and public attitudes. *Environmental munificence* is operationalized as two-items each using a five point Likert scale response measure. These items address the business owner's perception about how receptive the environment seems. The first item measures the owner's perception of industry growth rate (e.g., Dess & Beard, 1984; Yasai-Ardenkani, 1989). We asked entrepreneurs to rate the industry growth before and after the major environmental event happened to them in 2010, from “not at all fast” to “very fast.” The second item measured the owner's perception of the extent to which the providers of financial capital were interested in businesses like the respondents. Entrepreneurs answered the question: “How much interest existed among investors in businesses like yours in 2010?” Responses ranged from “very little” to “a great deal”. The two environmental munificence items have been confirmed by five experts who agreed that the items have face and content validity.

### Control Variables

We use number of employees as an indicator of *firm size*. At the individual level, we controlled for *entrepreneurial experience* and *industrial experience*. Greve and Salaff (2003) used number of years a respondent has run a business to control for an entrepreneur’s experience. Although they found that experienced entrepreneurs have the same networking patterns as novice entrepreneurs, we use a different measure to investigate whether the entrepreneur’s experience matters. We asked respondents “How many ventures have you started as the main founder?” In addition, industry experience may influence the entrepreneur’s base of social capital. Thus, we included the question “How many years have you been in this industry?” to address industry-specific experience.

### Analysis

We tested the first two hypotheses by using a paired t-test and tested the third hypothesis by applying an ordinary least squares (OLS) regression model. The paired t- test provided us with a hypothesis test of the difference between population means for a pair of random samples. It compares mean differences between treatments when the observations have been obtained in pairs (Hsu & Lachenbruch, 1996). Thus, we compared differences of network (tie) size before and after the environmental events or changes. In addition, we employed the OLS regression model and identified the relationship between our independent variable--network size--and the dependent variables.

## Results

Among 44 respondents, 30 entrepreneurs replied that the most significant environmental shock they dealt with during the previous year concerned either an increase in the number of direct competitors or changes in market demand for their product(s). The remaining entrepreneurs indicated that either governmental regulations or the availability of needed supplies were major events that impacted their firms. Table 1 presents descriptive statistics and correlations between each variable.

Table 1: Descriptive Statistics and Correlations

| Variable               | Mean | SD  | (1)   | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
|------------------------|------|-----|-------|-----|-----|-----|-----|-----|-----|-----|-----|------|
| (1) munificence before | 3.11 | .45 |       |     |     |     |     |     |     |     |     |      |
| (2) munificence after  | 3.85 | .47 | .44** |     |     |     |     |     |     |     |     |      |
| (3) uncertainty before | 3.22 | .24 | .20   | .06 |     |     |     |     |     |     |     |      |

|                                 |       |       |        |        |        |      |       |       |       |      |       |       |
|---------------------------------|-------|-------|--------|--------|--------|------|-------|-------|-------|------|-------|-------|
| (4) uncertainty after           | 3.59  | .34   | -.13   | -.05   | 0.29   |      |       |       |       |      |       |       |
| (5) network ties before event   | 16.84 | 13.17 | -.56** | -.54** | -.14   | .07  |       |       |       |      |       |       |
| (6) network ties after event    | 19.84 | 12.95 | -.55** | -.55** | -.16   | -.03 | .98** |       |       |      |       |       |
| (7) sales growth                | 15.17 | 4.82  | -.19   | .25    | -.17   | .17  | .26   | .20   |       |      |       |       |
| (8) return on sales             | 19.39 | 7.88  | .15    | .21    | -.01   | .32* | -.19  | -.30* | .54** |      |       |       |
| (9) industrial experience       | 5.35  | 5.12  | -.56** | -.49** | -.20   | .10  | .71** | .68** | .42** | .08  |       |       |
| (10) entrepreneurial experience | 1.64  | 1.18  | -.24   | -.32*  | -.46** | -.16 | .42** | .41** | .41** | .15  | .76** |       |
| (11) firm size                  | 2.18  | 1.06  | -.50** | -.27   | -.10   | .31* | .56** | .53** | .35*  | -.06 | .69** | .48** |

Cases reported n = 44

\*P<0.05; \*\*P<0.01

Table 2 presents an overall comparison between network size before and after the environmental event. From this table, we can observe that most network ties are statistically significant both before the environmental event happened as well as after the environmental event. Except for the tie category, “other family members”, most network tie categories increased after the environmental event. In addition, as compared to the number of previous business network ties, the increase in number of ties is statistically highly significant. Thus, the environmental event that affected these firms has a significant treatment effect on firms. In other words, firms facing changes in environmental munificence and environmental uncertainty increased both their business and social network ties. To test Hypotheses 1 and 2, we split the data according to the level of perceived environmental munificence and environmental uncertainty. Three entrepreneurs reported that there was no change in environmental uncertainty. Our results (Table 3) indicate that 35 founders reported that the environmental event that happened to their firm increased both environmental munificence and environmental uncertainty. The mean network size (i.e., number of ties) before the environmental event was 17.57 (SD=14.69) and the mean network size after the environmental event was 20.29 (SD=14.48). The difference in means is statistically significant (P<.001). Thus, Hypothesis 1 is supported. On the other hand, 6 firms reported that after the environmental event, environmental munificence increased while environmental uncertainty decreased. The mean of network size (i.e., number of ties) before the environmental event was 14.50 (SD=2.07) and the mean of network size after the environmental event was 18.67 (SD=2.50). The difference in means of these networks, in terms of number of ties, was analyzed and it was found to be statistically significant (P<.01). Thus, Hypothesis 2 is supported as well.

Table 2: Paired T-test (N=44)

| Network ties size (mean) | Mean   |       | SD     |       | t-test (paired) |
|--------------------------|--------|-------|--------|-------|-----------------|
|                          | Before | After | Before | After |                 |
| Close family members     | 2.07   | 2.16  | .818   | .805  | -2.074*         |
| Other family members     | .77    | .84   | .859   | .888  | -1.774          |
| Close friends            | 1.95   | 2.09  | .714   | .858  | -2.213*         |
| Acquaintances            | 1.36   | 1.64  | 3.686  | 3.641 | -3.325**        |

|  |       |       |        |        |           |
|--|-------|-------|--------|--------|-----------|
| Business associates                      | 3.91  | 4.61  | 6.287  | 6.116  | -6.662*** |
| Suppliers, distributors,<br>etc.         | 3.23  | 3.89  | 1.963  | 2.060  | -6.429*** |
| Competitor firms                         | .43   | .95   | .925   | 1.120  | -4.473*** |
| Bankers, lawyers,<br>other professionals | 3.11  | 3.66  | 1.513  | 1.599  | -4.413*** |
| Total                                    | 16.84 | 19.84 | 13.168 | 12.949 | -7.716*** |

\*p<.05; \*\*p<0.01; \*\*\*p<0.001

Table 3: Paired T-test

| Network ties<br>size (mean) | Mean   |       | SD     |       | t-test<br>(paired) |
|-----------------------------|--------|-------|--------|-------|--------------------|
|                             | Before | After | Before | After |                    |
| Total (N=35)                | 17.57  | 20.29 | 14.69  | 14.48 | -6.08***           |
| Total (N=6)                 | 14.50  | 18.67 | 2.07   | 2.50  | -5.00**            |

\*p<.05; \*\*p<0.01; \*\*\*p<0.001

To test Hypothesis 3, we used sales growth as the dependent variable. The results are displayed in Table 4.

The resultant model shows that network size squared has significant influence on sales growth when we controlled for firm size, entrepreneurial experience and industry experience. Additionally, the R-square is .43 and adjusted R-square is .35. As a result, Hypothesis 3 (the existence of an inverted-U shaped relationship) is not supported. Rather, the results suggest there is a U-shaped relationship between network size and firm performance. We further calculated the model with returns on sales as a dependent variable and we found that as network size becomes larger than 11.46, the resultant sales growth becomes negative. Therefore, as a firm's network size becomes larger, the increase is negatively related to firm performance.

Table 4: OLS Regression Model

| Variable                      | (2.1)                         | (2.2)                         | (2.3)               | (2.4)                            | (2.5)                            | (2.6)                            |
|-------------------------------|-------------------------------|-------------------------------|---------------------|----------------------------------|----------------------------------|----------------------------------|
| <i>Dependent variable</i>     | <u>Sales</u><br><u>growth</u> | <u>Sales</u><br><u>growth</u> | <u>Sales growth</u> | <u>Return on</u><br><u>sales</u> | <u>Return on</u><br><u>sales</u> | <u>Return on</u><br><u>sales</u> |
| <i>Controls</i>               |                               |                               |                     |                                  |                                  |                                  |
| Firm size                     | 17.49                         | 18.30                         | 19.16**             | -1.51                            | -1.07                            | -.88                             |
| Entrepreneurial<br>experience | 7.08                          | 5.07                          | 14.15*              | 1.24                             | .15                              | 2.13                             |
| Industry experience           | -3.56                         | -2.07                         | -3.70*              | .12                              | .93                              | .57                              |
| <i>Independent variable</i>   |                               |                               |                     |                                  |                                  |                                  |
| Network size                  |                               | -.72                          | -6.86***            |                                  | -.40**                           | -1.73***                         |
| Network size<br>squared       |                               |                               | .07**               |                                  |                                  | .02**                            |
| Constant                      | -10.73                        | -2.80                         | 69.45**             | 20.01***                         | 24.33***                         | 40.09***                         |
| R square                      | .18                           |                               | .43                 | .05                              | .26                              | .44                              |
| Adjusted R square             | .12                           |                               | .35                 | .03                              | .18                              | .37                              |

P<.05\*; p<.01\*\*; p<.001\*\*\*

## Discussion and Conclusion

Network ties are important for entrepreneurs to acquire critical resources. In addition, when faced with environmental changes, entrepreneurs may adjust their resource network to better cope with these circumstances. This study examined the changes in the number of network ties when environmental munificence and uncertainty increases or decreases. In addition, we related network size with firm performance and were able to identify an optimal number of network ties.

Environmental changes, such as the interaction between environmental munificence and environmental uncertainty, cause entrepreneurs to create or delete network ties. Specifically, as environmental munificence increases, entrepreneurs can obtain access to more resources when they increase network ties. As environmental uncertainty increases, entrepreneurs can also increase the number of network ties to reduce the level of uncertainty they confront. Similarly, as environmental uncertainty decreases, the entrepreneurs' ability of predicting the likelihood of future events is improved, and thus they will create ties to more effectively acquire needed resources. Through our analyses, we found that after a significant environmental event happened to affect their firms, entrepreneurs do increase network ties. They increase by three, on average, the number of network ties as environmental munificence and uncertainty increase. In addition, they increase by four, on average, the number of network ties as environmental munificence increases while uncertainty decreases.

Though entrepreneurs increase network ties after they face these significant environmental changes, the network ties may not be as beneficial as they expected. Accordingly, we conducted a regression analysis of network ties on firm performance – specifically sales growth. As expected, too large of a network is negatively related to firm performance. However, as opposed to our third hypothesis stating an expected inverted U-shape, we found a traditional U-shaped relationship between network ties and firm performance. As the number of network ties increases, these biotechnology firms' performance gradually decreases. When network ties are larger than 11.46, firm performance becomes negative. This finding supports Uzzi's (1997) suggestion that strong tie relationships could have positive effects up to a point, after which they could damage firm performance.

We explain this phenomenon by advancing a few considerations, which could also be our study's limitations. On the one hand, we only identify biotechnology firms' from 2 to 7 years old, which likely differ from more mature biotechnology firms. Second, while such firms have been associated with very dynamic environments, we cannot generalize to other industries. Third, our sample size is limited. We may arrive at a different optimal tie number (other than 11.46) if the sample is significantly larger. Finally, while using self-report data has been widely accepted, it is subject to recognized limitations.

This paper has important implications for entrepreneurs when they make decisions to obtain more resources by expanding the number of ties in their resource network. Acquiring the necessary network with the right partners is much more important than simply enlarging one's network. Previous research has emphasized the importance of performance benefits by having numerous ties with desirable partners (Hallen et al., 2012). But how many denotes numerous? In particular, as environmental conditions change, entrepreneurs need to be more aware that while enlarging one's network may help cope with environmental uncertainty, it could also hinder their firm's performance. Further research is underway to assess the specific impact certain events have on the quality of the network and its effect upon performance. We believe our study provides entrepreneurs in biotechnology or technology-related industries with some practical insights regarding an optimal network size. Further investigation with firms in other dynamic industries is suggested.

## References

- Adler, P.S., & Kwon, S.W. (2002). Social capital: Prospects for a new concept. *The Academy of Management Review*, 27(1), 17-40.
- Agarwal, R., Audretsch, D.B., & Sarkar, M.B. (2007). The process of creative construction: Knowledge spillovers, entrepreneurship, and economic growth. *Strategic Entrepreneurship Journal*, 1(3-4), 263-286.
- Ahuja, G. (2000). Collaborative networks, structural holes, and innovation: A longitudinal study. *Administrative Science Quarterly*, 45, 425-455.
- Aldrich, H.E. (1979). *Organizations and Environments*. Englewood Cliffs, NJ: Prentice-Hall.
- Aldrich, H.E., & Zimmer, C. (1986). Entrepreneurship through social networks. In D. Sexton & R. Smilor (Eds), *The Art and Science of Entrepreneurship* (pp.3-23): Cambridge, MA: Ballinger Publishing Company.
- Anderson, A.R., & Jack, S.L. (2002). The articulation of social capital: A glue or a lubricant. *Entrepreneurship and Regional Development*, 14(3), 193-210.
- Anderson, A.R., Jack, S.L., & Dodd, S.D. (2005). The role of family members in entrepreneurial networks: Beyond the boundaries of the family firm. *Family Business Review*, 18, 135-154.
- Barney, J.B. (1986). Strategic factor markets: Expectations, luck and business strategy. *Management Science*, 42, 1231-1241.
- Baron, R.A. (2007). Behavioral and cognitive factors in entrepreneurship: entrepreneurs as the active element in new venture creation. *Strategic Entrepreneurship Journal*, 1, 167-182.
- Bernard, H.R., Johnson, E., Killworth, P.D., McCarty, C., Shelley, G.A., & Robinson, S. (1990). Comparing four different methods for measuring personal social networks. *Social Networks*, 12, 179-215.
- Borgatti, S.P., & Cross, R. (2003). A relational view of information seeking and Learning in social networks. *Management Science*, 49(4), 432-445.
- Bruderl, J., & Preisendorfer, P. (1998). Network support and the success of newly founded businesses. *Small Business Economics*, 10, 213-225.
- Burt, R.S. (1992). *Structural holes: The social structure of competition*. Cambridge, MA: Harvard University Press.
- Castrogiovanni, G.J. (1991). Environmental munificence: A theoretical assessment. *Academy of Management Review*, 16, 542-565.
- Cross, R., & Parker, A. (2004). *The hidden power of social networks: Understanding how work really gets done in organizations*. Boston: Harvard Business School Press.
- Davidsson, P. & Honig, B. (2003). The role of social and human capital among nascent entrepreneurs. *Journal of Business Venturing*, 18, 301-331.
- De Rond, M., & Bouchikhi, H. (2004). On the dialectics of strategic alliances. *Organization Science*, 15 (1), 56-69.
- Dess, G.G., & Beard, D.W. (1984). Dimensions of organizational task environments. *Administrative Science Quarterly*, 29(1), 52-73.
- Dubini, P., & Aldrich, H. (1991). Personal and extended networks are central to the entrepreneurial process. *Journal of Business Venturing*, 6(5), 305-313.
- Duncan, R.B. (1968). *Preliminary report on the pretesting of: The effects of internal and external perceived environmental uncertainty on the flexibility of organizational decision unit structures*. Unpublished paper, Yale University, Department of Administrative Sciences.
- Duncan, R.B. (1972). Characteristics of organizational environments and perceived environmental uncertainty. *Administrative Science Quarterly*, 17, 313-327.
- Edelman, L., Bresnen, M., Newell, S. & Scarbrough, H. (2004). The benefits and pitfalls of social capital: Empirical evidence from two organizations in the United Kingdom. *British Journal of Management*, 15, 59-74.

- Eisingerich, A.B., Bell, S.J., & Tracey, P. (2010). How can clusters sustain performance? The role of network strength, network openness, and environmental uncertainty. *Research Policy*, 39, 239-253.
- Elfring, T., & Hulsink, W. (2007). Networking by entrepreneurs: Patterns of tie-formation in emerging organizations. *Organization Studies*, 28(12), 1849-1872.
- Florin, J., Lubatkin, M., & Schulze, W. (2003). A social capital model of high-growth ventures. *The Academy of Management Journal*, 46(3), 374-384.
- Gargiulo, M., & Bernassi, M. (1999). The dark side of social capital. In R. Th. A. J. Leenders & S. M. Gabbay (Eds.), *Corporate Social Capital and Liability* (pp. 298-322): Boston, MA: Kluwer.
- Granovetter, M. (1973). The strength of weak ties. *American Journal of Sociology*, 78, 1360-1380.
- Granovetter, M. (1982). The strength of weak ties: A network theory revisited. In P. V. Marsden & N. Lin (Eds.), *Social Structure and Network Analysis* (pp. 105-130), Beverly Hills, CA: Sage.
- Granovetter, M. (1995). *Getting a job: A study of contacts and careers* (2nd ed.). Chicago: University of Chicago Press.
- Greve, A., & Salaff, J.W. (2003). Social networks and entrepreneurship. *Entrepreneurship Theory and Practice*, 28(1), 1-22.
- Gulati, R. (1995). Social structure and alliance formation patterns: A longitudinal analysis. *Administrative Science Quarterly*, 40, 619-652.
- Hallen, B.L. & Eisenhardt, K.M. (2012). Catalyzing strategies and efficient tie formation: How Entrepreneurial firms obtain investment ties. *Academy of Management Journal*, 55(1), 35-70.
- Hansen, E.L., & Witkowski, T.H. (1995). Entrepreneur involvement in international marketing: the effects of overseas social networks and self-imposed barriers to action. In G. E. Hill & R. W. LaForge (Eds.), *Research at the Marketing/Entrepreneurship Interface* (pp. 363-367): Chicago, IL: The University of Illinois at Chicago.
- Hills, G.E., Lumpkin, G.T., & Singh, R.P. (1997). Opportunity recognition: Perceptions and behaviours of entrepreneurs. In P. D. Reynolds et al. (Eds), *Frontiers of Entrepreneurship Research* (pp. 168-182): Wellesley, MA: Babson College.
- Hite, J.M. (2005). Evolutionary processes and paths of relationally embedded network ties in emerging entrepreneurial firms. *Entrepreneurship Theory & Practice*, 29(1), 113-144.
- Hite, J.M., & Hesterly, W.S. (2001). The evolution of firm networks: From emergence to early growth of the firm. *Strategic Management Journal*, 22(3), 275-286.
- Hoang, H., & Antoncic, B. (2003). Network-based research in entrepreneurship: A critical review. *Journal of Business Venturing*, 18(2), 495-527.
- Honig, B., & Davidsson, P. (2000). *The role of social and human capital among nascent entrepreneurs*. Paper presented at the annual meeting of the Academy of Management, Toronto, Canada.
- Hsu, H., & Lachenbruch, P.A. (1996). *Paired t-test*. Encyclopedia of Biostatistics.
- Jack, S.L. (2005). The role, use and activation of strong and weak network ties: A qualitative analysis. *Journal of Management Studies*, 42(6), 1233-1260.
- Jack S, Dodd S.D., & Anderson A.R. (2008). Change and the development of entrepreneurial networks over time: A processual perspective. *Entrepreneurship and Regional Development*, 20, 125-139.
- Karelaia, N., & Hogarth, R.M. (2008). Determinants of linear judgment: A meta-analysis of lens model studies. *Psychological Bulletin*, 134(3): 404-426.
- Koka, B.R., Madhavan, R., & Prescott, J.E. (2006). The evolution of firm networks: Environmental effects on patterns of network change. *Academy of Management Review*, 31(3), 721-737.
- Krackhardt, D. (1992). The strength of strong ties: The importance of philos in organizations. In N. Nohria & R. Eccles (eds.), *Networks and Organizations: Structure, Form, and Action* (pp. 216-239): Boston, MA: Harvard Business School Press.
- Larson, A. (1991). Partner networks: Leveraging external ties to improve entrepreneurial performance. *Journal of Business Venturing*, 6, 173-188.

- Lawrence, P., & Lorsch, J. (1967). Differentiation and integration in complex organizations. *Administrative Science Quarterly*, 12, 1-30.
- Lechner, C, Dowling, M, & Welpe, I. (2006). Firm networks and firm development: The role of the relational mix. *Journal of Business Venturing*, 21(4), 514-540.
- Lesser, E.L. (2000). Leveraging social capital in organizations. In E. L. Lesser (Ed.), *Knowledge and Social Capital: Foundations and Applications* (pp. 3-16), Boston: Butterworth-Heinemann.
- Lonial, S.C., & Raju, P.S. (2001). The impact of environmental uncertainty on the market orientation – performance relationship: A study of the hospital industry. *Journal of Economic and Social Research*, 3(1), 5-27.
- Lumpkin, G.T., & Dess, G.G. (2001). Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle. *Journal of Business Venturing*, 16, 429-451.
- Madhavan, R., Koka, B.R., & Prescottt, J.E. (1998). Networks in transition: How industry events (re)shape interfirm relationships. *Strategic Management Journal*, 19(5), 439-459.
- Miles, R. E., & Snow, C. C. (1978). *Organizational strategy, structure and process*. New York: McGraw-Hill.
- Miller, N.J, Besser, T, & Malshe, A. (2007). Strategic networking among small businesses in small US communities. *International Small Business Journal*, 25(6), 631-665.
- Milliken, F.J. (1987). Three types of perceived uncertainty about the environment: State, effect, and response. *Academy of Management Review*, 12, 133-143.
- Nahapiet, J., & Ghoshal, S. (1998). Social capital, intellectual capital, and the organizational advantage. *Academy of Management Review*, 23, 242-266.
- Owen-Smith, J., & Powell, W.W. (2004). Knowledge networks as channels and conduits: The effects of spillovers in the Boston biotechnology community. *Organization Science*, 15, 5-21.
- Pfeffer, J., & Salancik, G. (1978). *The External Control of Organizations*. New York: Harper & Row.
- Pirollo, L., & Presutti, M. (2010). The impact of social capital on the start-ups' performance growth. *Journal of Small Business Management*, 48(2), 197-227.
- Porter, M.E. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press.
- Portes, A. (1998) Social capital: Its origins and applications in modern sociology. *Annual Review of Sociology*, 24, 1-24.
- Provan, K. G., Fish, A., & Sydow, J. (2007). Interorganizational networks at the network level: A review of the empirical literature on whole networks. *Journal of Management*, 33, 479-516.
- Renzulli, L.A., Aldrich, H., & Moody, J. (2000). Family matters: Gender, networks, and entrepreneurial outcomes. *Social Forces*, 79(2), 523-546.
- Rider, C.I. (2011). *Embedding inter-organizational relations in organizational members' prior education and employment networks*. Working Paper, Emory University.
- Rosenkopf, L., & Schilling, M. (2007). Comparing alliance network structure across industries: Observations and explanations. *Strategic Entrepreneurship Journal*, 1, 191-209.
- Rowley, T., Behrens, D., & Krackhardt, D. (2000). Redundant governance structures: An analysis of structural and relational embeddedness in the steel and semiconductor industries. *Strategic Management Journal*, 21, 369-386.
- Sandefur, R.L., & Laumann, E.O. (1998). A paradigm for social capital. *Rationality and Society*, 10, 481-501.
- Shane, S., & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25 (1), 217-226.

- Singh, R.P., Hills, G.E., Lumpkin, G.T., & Hybels, R.C. (1999). *The entrepreneurial opportunity recognition process: examining the role of self-perceived alertness and social networks*. Paper presented at the 1999 Academy of Management Meeting, Chicago, IL
- Slotte-Kock, S., & Coviello, N. (2010). Entrepreneurship research on network processes: A review and ways forward. *Entrepreneurship Theory and Practice*, 34(1), 31-57.
- Stiller, J., & Dunbar, R.I.M. (2007). Perspective-taking and memory capacity predict social network size. *Social Networks*, 29, 93-104.
- Stuart, T. E. (1998). Network positions and propensities to collaborate: An investigation of strategic alliance formation in a high-technology industry. *Administrative Science Quarterly*, 43(3), 668-698.
- Uzzi, B. (1997). Social structure and competition in interfirm networks: The paradox of embeddedness. *Administrative Science Quarterly*, 42, 35-67.
- Venkataraman, S. (1997). The distinctive domain of entrepreneurship research. *Advances in Entrepreneurship Research, Firm Emergence and Growth*, 3, 119-138.
- Wiklund, J., Patzelt, H., & Shepherd, D. (2009). Building an integrative model of small business growth. *Small Business Economics*, 32, 351-374.
- Yasai-Ardenkani, M. (1989). Effects of environmental scarcity and munificence on the relationship of context to organizational structure. *The Academy of Management Journal*, 32(1), 131-156.
- Zhang, J. (2010). The problem of using social networks in entrepreneurial resource acquisition. *International Small Business Journal*, 28(4), 338-361.

# **Personality as a Moderator of the Relationship Between Organizational Size and Organizational Attraction Perceptions**

Stephanie Thomason, The University of Tampa

Amy Brownlee, The University of Tampa

Susan Steiner, The University of Tampa

## **Abstract**

The ability of an organization to attract employees who will successfully execute their job duties is critical for the long-term success of any organization. Applicants considered conscientious, outgoing, enthusiastic, and emotionally stable may seem more attractive to employers than those with personalities of opposing dimensions. The present study applied a vignette approach to determine whether the personality domains of the Five Factor Model of Personality moderated the relationship between organizational size and overall organizational attractiveness. Results suggested that highly conscientious respondents and extraverted respondents found large firms attractive, while respondents who were open to experience, yet low in conscientiousness found small firms attractive. Theoretical and practical implications are offered.

## **Introduction**

Being considered “attractive” to job seekers offers numerous advantages to organizations seeking to attract and retain the highest levels of intellectual and human capital and to ultimately achieve a sustainable competitive advantage (Berthon, Ewing, & Hah, 2005). Employer attractiveness can be defined as “envisioned benefits that a potential employee sees in working for a specific organization” (Berthon, Ewing, & Hah, 2005, p. 151). Over the past decade, consultants have published an array of anecdotal articles touting the benefits obtained (Herman & Gioia, 2001; Higgs, 2005) and resources required (Herman & Gioia, 2001; Higgs, 2005) to become attractive to employees. Yet while attractiveness offers obvious benefits for organizations, the literature examining the predictors of organizational attractiveness is underdeveloped, primarily focusing on the attractiveness of large organizations and often based on the perceptions of a relatively narrow MBA student population.

Previous research has identified several organizational predictors of organizational attractiveness, such as reputation and corporate social performance (Turban & Greening, 1996; Albinger & Freeman, 2000), pay/salary/benefits (DelVecchio, Jarvis, Klink, & Dineen, 2007; Browne, 1997), intellectual challenge (Montgomery & Ramus, 2011), brand equity (DelVecchio et al., Dineen, 2007), impressions of co-workers (Devendorf & Highhouse, 2008), and geographic location (Butler, Sanders, & Whitecotton, 2000). This growing literature has also often focused on the MBA student population and its attractiveness perceptions of large organizations (Arbaugh, Bento, & Hwang, 2010; Rubin & Dierdorff, 2009; Navarro, 2008; Safan, 2007; Scott, 2000), as this group of job applicants is easily accessible and highly desirable in such organizations. Yet the MBA student population only represents a small proportion of the entire job applicant pool in the employee workforce, so studies focusing on additional rungs of the employment ladder are additionally desirable. Furthermore, the job choice decisions of MBA students may vary from those of the much larger (and also highly desirable) undergraduate college student population.

While research has suggested that respondents uniformly base perceptions of attractiveness on broad-based categories such as reputation, pay, and geographic location, other factors are likely to influence whether applicants consider organizations attractive and prestigious. The person-organizational fit theory and literature (Kristof, 1996) calls attention to variation in organizational choice and focuses on the particular job applicant’s interests and values. One recent study used this theory to explain the relationship between personal values and organizational cultures, and distinguished the latter through an emphasis on rules versus risks and also rewards versus relations (Borg, Groenen, Jehn, Bilsky, & Schwartz, 2011). The authors found that a better person-organization fit can be achieved when the personal values of workers align closely to

these types of organizational culture. They note that a person who values tradition and security is better served in an organization that values rules. In contrast, a person who values achievement may be better served in a rewards-focused organization.

The Borg et al (2011) study informs theory and practice about the relationship between values and organizational cultures. We know less about the relationship between the outward manifestations of such values, i.e., the job applicant's personality. Studies that have identified relationships between personality and preferences for particular organizational culture types have found that relationships do exist. One such study by Judge and Cabell (1997) found that the Big Five personality domains (extraversion, conscientiousness, openness to experience, neuroticism, and agreeableness) related to various preferences for organizational culture types. This study was conducted during a recruiting season on a college campus and primarily focused on student responses about organizations with which they were interviewing. Organizations conducting on-campus recruiting are generally large, probably attributable to the resources required to recruit on-campus. As noted by Bernardin (2010), recruiting costs typically run in excess of \$6,000 per on-campus recruit and such costs may be formidable to more resource-challenged small firms.

Few studies have focused on organizational attractiveness of small firms and/or the relationship between the personality profiles of potential job applicants and organizational attractiveness based on organizational size (c.f. Lievens, Decaestecker, Coetsier, & Geirnaert, 2001). Small and medium-sized enterprises (SMEs) comprise a significant portion of all firms within the United States. According to a U.S. Census Bureau (2011) report, firms with less than 500 employees represent over 99% of all firms in the U.S. Moreover SMEs account for 49% of all employees and 43% of the nation's payroll. While these data reveal that SMEs represent a substantial portion of U.S. workers, the academic business literature is largely based upon findings within large organizations (cf. Lechner & Leyronas, 2009; Jack, Hyman, & Osborne, 2006; Heneman, Tansky & Camp, 2000), perhaps attributable to data availability and such firms' extensive resources and strong revenues. Since almost half of the U.S. population works for SMEs, attention to the facilitators of a sustainable competitive advantage within SMEs is undoubtedly warranted.

Employees want to work for SMEs. One recent study found that employees' perceptions of job quality are highest in small firms and decrease as the size of the firm increases (Storey, Saridakis, Sen-Gupta, Edwards, & Blackburn, 2010). The presence of "formality" - or policies, programs, and procedures - are negatively related to perceptions of job satisfaction. Interestingly, this finding contrasts the recruitment strategies of some organizations. One study of corporate messages on a large recruiting website found that firms' place the most emphasis on their "successful" and "large" attributes to attract job applicants (Backhaus, 2004). Backhaus states that "no empirical studies have supported the notion that organization size, success, or global reach are inducements to applicants, yet these corporate recruitment statements emphasize these attributes over all information" (p. 130).

Accordingly, our study aims to address gaps in the research by developing a better understanding of organizational attractiveness in SMEs by examining job seekers' personalities and organization size preferences. We use the domains of the well-known Five Factor Model of Personality (Costa & McCrae, 1992) to assess personality, and vignettes developed for the present study to delineate size. Our focus includes both small and large organizations so that we can draw comparisons between the two. The framework upon which we built our model stems from theories of social identity (Tajfel & Turner, 1979) and similarity attraction (Berscheid & Walster, 1969; Byrne, 1971). These theories suggest that people prefer to engage in and support relationships with others with whom they closely identify. Relationships pose fewer cognitive challenges when parties share similar values, attitudes, and experiences (Kunda, 1999).

In the next section, we review the extant literature to build and test a model of the moderating effects of personality on the relationship between organizational size and organizational attractiveness.

## **Differences Between Small and Large Firms**

Human resource policies have been shown to impact job choice among potential applicants (Bretz & Judge, 1994). Bretz and Judge (1994) found that individual differences on traits such as locus of control and preference for individual work affected how attractive these individuals found organizations that differed on specific HR practices such as team work and merit pay. Previous research has also examined how HR practices differ in large versus small firms (for review see Cardon & Stevens, 2004). This research shows marked differences in how small versus large firms approach their management of human resources. For instance, Heneman, Tanksy and Camp (2000) found in a review of the small business literature that compensation at small organizations focused on not only pay and monetary incentives but also psychological rewards of working in a small firm, the available learning opportunities and the recognition likely in a smaller firm.

In general, small and large firms do seem to have many of the same worries with regard to human resources (Hornsby & Kuratko, 1990). However, other research has shown that smaller organizations tend to have less formal HR polices and may not have HR professionals (Heneman, et al., 2000). Hornsby and Kuratko (1990) argue that smaller firms do use many of the same HR practices as larger firms and that small firms' lack of formality is overstated in the literature. However, numerous studies have identified different patterns in HR practices between small and large firms.

Previous research has found that smaller organizations tend to hire for organizational fit instead of hiring for a specific job (Heneman, Heneman, & Judge, 1997). Staffing decisions in smaller firms are therefore based on the extent to which the decision-makers believe an applicant will take on additional job as needed and be able to handle multiple tasks or responsibilities. Additionally, during the hiring process personnel in smaller organizations are less likely to use personality tests and person-organization fit instruments that have been shown to be valid and useful in larger organizations (Heneman, et al., 2000).

Other areas of HR that differ between small and large firms include training and performance appraisal. Training in smaller organizations tends to more informal and relies on on-the-job training to a great extent with few formal training programs (Storey, 2004; Westhead & Storey, 1996). Performance appraisals in smaller organizations also tend to be more informal and continuous as opposed to occurring at set times of the year. This frequent, informal performance evaluation is more aimed at controlling and monitoring employees rather than for developmental purposes (Gilbert & Jones, 2000; Neeson, Billington, & Barrett, 2007).

One final difference between small and large firms with regard to human resources management relates to policies aimed at work-life balance. Larger firms are more likely to have formal, specific policies intended to promote work-life balance (Bond, Hyman, Summers & Wise, 2002; Galinsky & Bond, 1998).

In summary, previous research has identified a number of areas in which human resource practices vary between small and large organizations. We propose that the personality characteristics of job applicants will likely impact the attractiveness of these varying types. To assess potential job applicants' personalities, we use the five factor model of personality (FFM) (Costa & McCrae, 1992; Barrick, Mount & Judge, 2001). Judge and colleagues state that "virtually all personality measures can be reduced or categorized under the umbrella of a five-factor model of personality" (Judge, Higgins, Thoresen, & Barrick, 1999, p. 622). The domains of the FFM are extraversion, agreeableness, conscientiousness, emotional stability/neuroticism and openness to experience (Costa & McCrae, 1995; Judge, Bono, Iles & Gerhardt, 2002). These domains have been found to predict leadership effectiveness, career success (Judge et al., 2002), and managerial job performance (Barrick et al., 2001; Oh & Berry, 2009) and are thus likely to influence career choices and perceptions of organizational attractiveness.

## **Proposed Impact of Personality on Organizational Attractiveness Perceptions**

### *Extraversion*

Extraverted individuals are talkative, outgoing, sociable, adventurous and assertive (Barrick & Mount, 1991; Goldberg, 1990). Conversely, introverted individuals are described as aloof, quiet or modest (Goldberg, 1990). Extraversion predicts high job performance in both sales and managerial work (Barrick & Mount, 1991). Extraversion is also shown to positively affect teamwork (Borman, Penner, Allen & Motowidlo, 2001). Extraverted individuals would likely be attracted to organizations where their outgoing nature is required or accepted. Given the more unstructured environment in small organizations which would indicate a great need for interpersonal interactions in order to accomplish one's work, we would expect extraverted individuals to be more attracted to small, unstructured organizations versus larger, structured organizations.

Hypothesis 1: Extraversion will moderate the relationship between organizational size and organizational attractiveness such that individuals high in extraversion will find small organizations more attractive.

### *Agreeableness*

Agreeable individuals tend to be cooperative, warm and courteous (Goldberg, 1990). On the other hand, skeptical individuals (low in agreeableness) can be described as untrusting, critical or argumentative. Costa and McCrae (1992), however, also described agreeable individuals as more passive and conforming. Other research suggests that highly agreeable individuals may also be less proactive (LePine & Van Dyne, 2001; Tett & Burnett, 2003). This past research seems to suggest that highly agreeable individuals would most likely find large organizations more attractive since the work is prescribed and they are not required to be proactive.

Hypothesis 2: Agreeableness will moderate the relationship between organizational size and organizational attractiveness such that individuals high in agreeableness will find large organizations more attractive.

### *Conscientiousness*

Highly conscientious individuals are persevering, organized, dependable and achievement-striving (Costa & McCrae, 1992). In contrast, individuals with low scores in conscientious are described as forgetful, lazy or careless. These characteristics would indicate that highly conscientious individuals high might prefer larger organizations where achievement and advancement are more likely and opportunities more prevalent. Lievens, Decaestecker, Coetsier, and Geirnaert (2001) found just that relationship in a study examining how personality moderates the relationship between organizational attractiveness and organizational size. Their study, however, did not focus on how HR practices differ between small and large organizations. Previous research showing that the more a person believes they will fit in an organization the greater the attraction to the organization (Kristof, 1996), it seems likely that the greater structure found in the HR practices of large organizations should be attractive to organized individuals as shown by a high level of conscientiousness. This leads to our first hypothesis:

Hypothesis 3: Conscientiousness will moderate the relationship between organizational size and organizational attractiveness such that individuals high in conscientiousness will find large organizations more attractive.

### *Emotional Stability*

Emotional stability, also called neuroticism (inverse relationship) or emotionality (Barrick & Mount, 1991), at the low end is characterized by being anxious, insecure, self-pitying or immature (Goldberg, 1990). Individuals with high emotional stability are described as calm, self-reliant, and stable. Previous research has shown that these individuals might be predisposed to react to changes in a work environment as negative or

threatening (Burke, Brief & George, 1993; Watson & Clark, 1984). Additional research has also shown that individuals low in emotional stability react negatively to situations where they experience low levels of control or perceive high levels of uncertainty (Tett & Burnett, 2003). These findings suggest that emotionally unstable individuals would perceive the work environment at a small organization in a negative light and would therefore find it less attractive.

Hypothesis 4: Emotional stability will moderate the relationship between organizational size and organizational attractiveness such that individuals low in emotional stability will find small organizations significantly less attractive.

#### *Openness to Experience*

Individuals high in openness to experience are described as imaginative and curious (Barrick & Mount, 1991). These individuals have a propensity to be adaptive in their work (Thoresen, Bradley, Bliese, & Thoresen, 2004) and handle changes in task demands more effectively (LePine, Colquitt & Erez, 2000). In small organizations, jobs are less well-defined and the organizations need individuals to take on tasks as needed in order to be effective. A lack of structure in training, promotions and work will also require that individuals are proactive in approaching their work. Neal, Yeo, Koy and Xiao (2012) found that individuals with high levels of openness to experience were more proactive in their work at both the individual and organizational level. Accordingly, we propose the following hypothesis:

Hypothesis 5: Openness to experience will moderate the relationship between organizational size and organizational attractiveness such that individuals high in openness to experience will find small organizations more attractive.

### **Research Methodology**

#### *Phase 1: Manipulation Check*

We conducted our analyses in two phases. In the first phase, we administered two manipulation check surveys to 64 undergraduate and graduate students enrolled in a variety of management courses at a medium-sized private university in the southeastern United States. The mean age of the respondents was 22 and 68% were female. Participants read a paragraph describing an organization they were considering for a job. The description was designed to represent either a larger organization or a smaller organization (see appendix 1 for descriptions used). Neither description referred to the organization as “large” or “small” but the description of the human resources at each organization was different. Some of the primary differences were the level of job definition, presence of formal training, formal human resources policies and the reporting structure. These differences were based on previous research examining how human resources policies and practices differ in large versus smaller firms (Cardon & Stevens, 2004).

Participants read the short descriptions, answered the manipulation check questions and provided demographic data. No other variables were measured during the manipulation check. Two questions were used to measure the extent to which the manipulation was successful. The first question asked students to “circle the amount below that you think best estimates the number of employees at the company.” The options were: 1 – 50; 51 – 100; 101 – 150; 151 – 200; 201- 300; 301 – 400; and Over 400. An independent samples t-test indicated that the mean difference was significant ( $p < .000$ ) under assumptions of equal or unequal variance. The mean score for the large company manipulation was 5.07 (SD = 1.76), while the mean score for the small company manipulation was 1.62 (SD = 1.48). The second question asked participants to “circle the number that best describes the size of the company you read about.” The 7 point Likert-type scale was anchored with 1 = small, 4 = medium, and 7 = large. The mean score of the group taking the large company manipulation was 5.13 (SD 1.11), while the mean score for the group taking the small company manipulation was 2.29 (SD 1.24). A two-tailed independent samples t-test indicated that the mean difference between the two groups was highly significant ( $p < .000$ ) under assumptions of both equal and unequal variances.

## Phase 2: Hypotheses Testing

### Sample

We administered our second survey instrument to 138 business undergraduates and graduates in a medium-sized private university in the southeastern United States. The mean age of the respondents was 24.8 years, 57% were male, and 75% were undergraduate students.

### Organizational Attractiveness

Organizational attractiveness was assessed using the instruments created by Highhouse, Lievens, and Sinar (2003). This instrument is made up of 15 statements measuring three dimensions of organizational attractiveness: general organizational attractiveness, intentions to pursue, and company prestige. Participants responded to the 15 items using a 5-point Likert-type response scale anchored by 1 = strongly disagree and 5 = strongly agree. We collapsed the 15 items into three variables using means, and then collapsed the three means into a single mean representing overall organizational attractiveness, the dependent variable in the present study.

### Personality

Personality was measured using a 44-item assessment of the five domains of the Five Factor Model of Personality (John & Srivastava, 1999). The assessment uses an "I see myself as someone who" anchor for the 44 items. The participants then rate the extent to which they agree or disagree with the statement based on a 5-point response scale where 1=strongly disagree, 2=somewhat disagree, 3=neither agree nor disagree, 4=somewhat agree, and 5=strongly agree. Each of the five personality variables is captured in 8 to 10 items and we used the mean score of each to derive the five personality domains.

## Results

Table 1 presents the means, standard deviations, correlations, and reliability indexes of the study variables.

Table 1. Descriptive Statistics, Correlations, and Reliabilities of Study Variables

|                 | M   | SD | 1      | 2     | 3      | 4      | 5      | 6     | 7   |
|-----------------|-----|----|--------|-------|--------|--------|--------|-------|-----|
| 1 overallorgatt | 3.6 | .8 | .91    |       |        |        |        |       |     |
| 2 small firm    | .5  | .5 | -.55** | -     |        |        |        |       |     |
| 3 agreeable     | 4   | .6 | .13    | -.12  | .78    |        |        |       |     |
| 4 conscient     | 4   | .6 | -.09   | -.01  | .53**  | .80    |        |       |     |
| 5 extraversion  | 3.7 | .7 | .12    | -.19* | .39**  | .31**  | .84    |       |     |
| 6 neuroticism   | 2.3 | .7 | -.01   | .03   | -.40** | -.35** | -.40** | .78   |     |
| 7 openness      | 3.8 | .5 | .10    | .02   | .17*   | .21*   | .26**  | -.19* | .77 |

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

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

Small firm dummy variable: 1 = small; 0 = large

Cronbach's alpha estimates of reliabilities are on the diagonal.

To determine whether to use control variables in our analyses, we checked the significance of the relationship between overall organizational attractiveness and gender, age, graduate or undergraduate level, and whether respondents were employed. Results indicated that these demographic variables were not significant predictors of organizational attractiveness, so we excluded them from further analyses for parsimony.

To test our hypotheses of the moderating effects of each of the personality domains of the FFM, we followed the hierarchical regression analyses approach used by Lievens, Decaestecker, Coetsier, and Geirnaert (2001). In the first step, we created a dummy variable for organizational size by coding the surveys describing the large firms with zeros and the surveys describing the small firms with ones. We entered the small firm dummy variable at this step. In the second step, we entered the five personality domains: extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience. In the third step, we entered the cross-product terms of the personality x the small firm dummy variables. We standardized the independent variables prior to creating the cross-product terms to avoid problems of multicollinearity following the instructions of Aiken and West (1991) and Jaccard, Turrisi, and Wan (1990). Table 2 presents the results of our analyses.

Table 2. Regression of Hierarchical Regression Analyses of Interaction Effects between Organizational Size and Personality

| Variable                      | Cumulative $R^2$ | $R^2$ change | $b^a$   |
|-------------------------------|------------------|--------------|---------|
| 1. Firm size (small firm)     | .30***           | .30***       |         |
| 2. Personality domains        | .34              | .04          |         |
| 3. Interactions               | .49              | .15***       |         |
| Firm size x agreeableness     |                  |              | .07     |
| Firm size x conscientiousness |                  |              | -.26*** |
| Firm size x extraversion      |                  |              | -.14*   |
| Firm size x neuroticism       |                  |              | .06     |
| Firm size x openness          |                  |              | .18**   |

a To interpret the *a priori* standardized variables, the *b* coefficients in this table are unstandardized regression coefficients (Aiken & West, 1991).

\*  $p < .05$ ; \*\*  $p < .01$ ; \*\*\*  $p < .001$

As shown in Table 2, in the first step, firm size (small firm) explained 30% of the variation in the regression equation  $F(1, 136) = 57.68, p < .001$ . The personality domains entered in the second step were responsible for an additional 4% of variance.  $F(6, 131) = 11.25, p > .05, n.s.$  Together, firm size and the personality domains explained 34% of the variance in overall organizational attractiveness. In the third step, the hypothesized interaction terms significantly increased the variance by 15% to 49%  $F(11, 126) = 10.84, p < .001$ .

A closer inspection of the interaction terms reveals support for hypotheses 3 and 5. Specifically, in support of hypothesis 2, conscientiousness significantly moderated the effect of organizational size on organizational attractiveness ( $b = -.26, p < .001$ ) such that respondents with high levels of conscientiousness find large organizations attractive, while those with low levels of conscientiousness find small organizations attractive. The latter relationship was unpredicted, yet significant. In support of hypothesis 5, openness to experience significantly moderated the effect of organizational size on organizational attractiveness ( $b = .18, p > .01$ ) such that respondents with higher levels of openness to experience find small organizations attractive. We further found an unhypothesized relationship suggesting that extraversion significantly moderated the effect of organizational size on organizational attractiveness ( $b = -.14, p < .05$ ).

### Discussion and Implications

Traditional human resource management practices emphasize matching the knowledge, skills, and abilities of job applicants to the job requirements, yet CEO/founders of small organizations often focus instead on whether the applicants “fit” in with the organizational culture (Heneman, Tansky, & Camp, 2000). The personality of the job applicants is likely to influence these perceptions of fit. Furthermore, personality has substantial validity and utility in predicting behavior in organizational settings (Ones, Viswesvaran, &

Dilchert, 2005), so making hiring decisions based on applicants' personalities is a valid HRM practice. Organizations, both large and small, benefit from a large pool of qualified applicants with the types of personalities consistent with efficiency and effectiveness in job performance.

Accordingly, the purpose of the present study was to investigate the organizational size preferences of potential job applicants and determine whether personality plays a moderating role in the relationship between organizational size and overall organizational attractiveness. We found support for two of our hypotheses suggesting that respondents with higher levels of conscientiousness find large organizations attractive, while those with higher levels of openness to experience find small organizations attractive. Interestingly, we further found two unhypothesized relationships warranting further study into these phenomena. Specifically, we found that potential job applicants with low levels of conscientiousness find small organizations attractive, while those with higher levels of extraversion find large firms attractive. While the latter finding is in support of hypothesized relationships in previous studies (e.g., Lievens et al., 2001), the former finding is intriguing, particularly considering that conscientiousness is the strongest predictor of job performance overall (Barrick, Mount & Judge, 2001). Potential job applicants with low levels of conscientiousness are characterized by a weak work ethic and therefore are likely to perform at substandard levels. Hiring such applicants could be disastrous to entrepreneurial organizations seeking "high-potential employees that can perform multiple roles under various stages of organizational growth" (Heneman, Tansky, & Camp, 2000, p. 11). Perhaps these findings offer a partial explanation for the well-recognized high failure rates of small firms. Future studies should examine these relationships in other populations and with different types of firms to determine generalizability.

### **Research Limitations**

This research extended studies on organizational attractiveness from the MBA population to the larger undergraduate population of business majors. However, even this population is small compared to the number of students graduating from universities and colleges each year. Do the results in this study also hold true for all college graduates? Daniel Pink (2006) predicts that business students will become the blue collar workers of the 21<sup>st</sup> century because of their linear thinking and focus on data analysis, whereas those with art degrees will be the most sought-after employees in the business world because of their ability to think and express themselves creatively. Whether this prediction bears out or not, this question bears merit. Both small and large businesses hire employees with backgrounds in the humanities, social sciences and sciences in addition to those with business degrees.

Another limitation of this study is the characteristics that were used to contrast a small versus large organizations. As already noted, the vignettes used in this study were based on Cardon & Stevens' (2004) research on the ways that human resources policies and practices differ in large versus smaller firms. Nonetheless, business students might have attributed other characteristics to the companies based on the write-ups in addition to size. For example, they may have seen the 4-year old start up as more entrepreneurial. Would student response have been different if the smaller company had been established for 25 years? If the larger company had been a high-tech company or one with an organic organizational structure? Future research needs to tease out these additional, potentially moderating attributes.

A third limitation relates to the use of potential job applicants' self-reports of personality and the corresponding potential for bias in responses. This potential may have been mitigated by the assurances of anonymity and group data analyses from the survey administrators, yet still poses a concern. One recent meta-analysis found that ratings of personality from significant others (such as peers) were more valid than self-reported ratings of personality (Connelly & Ones, 2010). Future studies should assess candidates' personality from multiple sources, such as from qualified peers.

Despite the limitations, the results may serve to stimulate future studies of the organizational attractiveness of small and large organizations. Attracting and retaining the best talent offers organizations a sustainable competitive advantage.

### References

- Ahearne, M., Bhattacharya, C.B. & Gruen, T.W. (2005). Antecedents and consequences of customer-company identification: Expanding the role of relationship marketing. *Journal of Applied Psychology*, 90(3): 574.
- Aiken, L.S. & West, S.G. (1991). *Multiple Regression: Testing and Interpreting Interactions*. Newbury Park, CA: Sage.
- Albinger, H.S. & Freeman, S.J. (2000). Corporate social performance and attractiveness as an employer to different job seeking populations. *Journal of Business Ethics*, 28: 243-254.
- Arbaugh, J.B., Bento, R., & Hwang, A. (2010). Does the MBA experience support diversity? *Decision Sciences Journal of Innovative Education*, 8(2): 391-415.
- Backhaus, K.B. (2000). An exploration of corporate recruitment descriptions on Monster.com. *Journal of Business Communication*, 41(2): 115-136.
- Barrick, M.R. & Mount, M.K. (1991). The Big Five personality dimensions and job performance: A meta-analysis. *Personnel Psychology*, 44, 187-215.
- Barrick, M. R., Mount, M. K., & Judge, T. A. (2001) Personality and performance at the beginning of the new millennium: What do we know and where do we go next? *Personality and Performance*, 9, 9-31.
- Bernardin, H.J. (2010). *Human Resource Management: An Experiential Approach*, 5<sup>th</sup> edition. New York, NY: McGraw-Hill Irwin.
- Berscheid, E. and E. H. Walster: 1969, *Interpersonal Attraction* (Addison-Wesley, Reading, Mass.).
- Borg, I., Groenen, P.J.F., Jehn, K.A., Bilsky, W., & Schwartz, S.H. (2011). Embedding the Organization Culture Profile Into Schwartz's Theory of Universals in Values. *Journal of Personnel Psychology*, 10(1): 1-12.
- Borman, W., Penner, L., Allen, T. & Motowidlo, S. (2001). Personality predictors of citizenship performance. *International Journal of Selection and Assessment*, 9, 52-69.
- Bond, S., Hyman, J., Summers, J. & Wise, S. (2002). *Family-Friendly Working? Putting Policy into Practice*. York: York Publishing Services.
- Bretz, R.D. & Judge, T.A. (1994). The role of human resource systems in job applicant decision processes. *Journal of Management*, 20, 531-551.
- Browne, B.A. (1997). Gender and preferences for job attributes: A cross-cultural comparison. *Sex Roles*, 37(1/2), 61-71.
- Burke, M., Brief, A. & George, J. (1993). The role of negative affectivity in understanding relations between self-reports of stressors and strains: A comment on the applied psychology literature. *Journal of Applied Psychology*, 78, 402-412.
- Butler, S.A., Sanders, D.E., Whitecotton, S.M. (2000). Student and recruiter insights on the importance of job attributes. *Journal of Managerial Issues*, 12(3): 337-351.
- Byrne, D. (1971). *The Attraction Paradigm*. New York: Academic Press.
- Cardon, M.S. & Stevens, C.E. (2004). Managing human resources in small organizations: What do we know? *Human Resources Management Review*, 14, 295-323.
- Connelly, B.S. & Ones, D.S. (2010). Another perspective on personality Meta-analytic integration of observers' accuracy and predictive validity. *Psychological Bulletin*, 136, 1117.
- Costa Jr., P. T., & McCrae, R. R. (1992) *Revised neo personality inventory (neo pi r) & neo five factor inventory (ffi) professional manual*. Odessa, Florida: Psychological Assessment Resources.
- Costa Jr., P. T., & McCrae, R. R. (1995) Domains and facets: Hierarchical personality assessment using the revised neo personality inventory. *Journal of Personality Assessment*, 64, 21-50.

- DelVecchio, D., Jarvis, C.B., Klink, R.R., & Dineen, B.R. (2007). Leveraging brand equity to attract human capital. *Marketing Letters*, 18, 149-164.
- Devendorf, S.A. & Highhouse, S. (2008). Applicant-employee similarity and attraction to an employer. *Journal of Organizational and Occupational Psychology*, 81, 607-617.
- Galinsky, E. & Bond, J.T. (1998). *The 1998 Business Work-Life Study: A Sourcebook*. New York: Families and Work Institute.
- Gilbert, J. & Jones, G. (2000). Managing human resources in New Zealand small business. *Asia Pacific Journal of Human Resources*, 38(2), 55-68.
- Goldberg, L. (1990). An alternative "description of personality": The big-five factor structure. *Journal of Personality and Social Psychology*, 59, 1216-1229.
- Heneman, H.G. III, Heneman, R.L. & Judge, T.A. (1997). *Staffing Organizations* (2<sup>nd</sup> ed). New York: McGraw-Hill.
- Heneman, R.L., Tansky, J.W., & Camp, S.M. (2000). Human resource management practices in small and medium-sized enterprises: Unanswered questions and future research perspectives. *Entrepreneurship Theory and Practice*, 25(1), 11-26.
- Herman, R.E. & Gioia, J.L. (2001). Helping your organization become an employer of choice. *Employment Relations Today, Summer (2001)*, 63-78.
- Higgs, M. (2005). You can pay to be an employer of choice? *Employee Benefits*, 18.
- Highhouse, S., Lievens, F., & Sinar, E. (2003). Measuring attraction to organizations, *Educational and Psychological Measurement*, 63(9), 986-1001.
- Hornsby, J.S. & Kuratko, D.F. (1990). Human resources management in small business: Critical issues for the 1990s. *Journal of Small Business Management*, 28(3), 9-18.
- Hyman, J. & Osbourne, F. (2006). Small entrepreneurial ventures culture, change, and the impact on HRM: A critical review. *Human Resource Management Review*, 16, 456-466.
- Jaccard, J., Turrisi, R., & Wan, C.K. (1990). *Interaction Effects in Multiple Regression*. Newbury Park, CA: Sage.
- John, O.P. and Srivastava, S. (1999). The Big Five trait taxonomy: History, measurement, and theoretical perspectives. In L.A. Pervin and O.P. John *Handbook of Personality: Theory and Research*, 2<sup>nd</sup> edition, pp. 102-138. New York: Guilford.
- Judge, T.A. & Cable, D.M. (1997). Applicant personality, organizational culture, and organization attraction. *Personnel Psychology*, 50(2): 359-394.
- Kristof, A.L. (1996). Person-organization fit: An integrative view of its conceptualizations, measurement, and implications. *Personnel Psychology*, 49: 1-49.
- Kunda, Z. (1999). *Social Cognition: Making Sense of People* (MIT Press, Cambridge, MA).
- Judge, T. A., Higgins, C. A., Thoresen, C. J., & Barrick, M. R. (1999) The big five personality traits, general mental ability, and career success across the life span. *Personnel Psychology*, 52: 621-652.
- Judge, T. A., Bono, J. E., Ilies, R., & Gerhardt, M. W. (2002) Personality and leadership: A qualitative and quantitative review. *Journal of Applied Psychology*, 87, 765-780.
- Lechner, C. & Leyronas, C. (2009). Small business group formation as an entrepreneurial development model. *Entrepreneurship Theory and Practice*, 33(3), 645-667.
- LePine, J., Colquitt, J.A. & Erez, A. (2000). Adaptability to changing task contexts: Effects of general cognitive ability, conscientiousness, and openness to experience. *Personnel Psychology*, 53, 563-593.
- LePine, J. & Van Dyne, L. (2001). Voice and cooperative behavior as contrasting forms of contextual performance: Evidence of differential relationships with team effectiveness criteria. *Journal of Applied Psychology*, 86, 326-336.
- Lievens, F., Decaestecker, C., Coetsier, P. & Geirnaert, J. (2001). Organizational attractiveness for prospective applicants: A person-organization fit perspective. *Applied Psychology: An International Review*, 50(1), 30-51.

- Montgomery, D.B. & Ramus, C.A. (2011). Calibrating MBA job preferences for the 21<sup>st</sup> century. *Academy of Management Learning and Education*, 10(1), 9-26.
- Navarro, P. (2008). The MBA core curricula of top-ranked U.S. business schools: A study in failure? *Academy of Management Learning and Education*, 7, 108-123.
- Neal, A., Yeo, G., Koy, A. & Xiao, T. (2012). Predicting the form and direction of work role performance from the Big 5 model of personality traits. *Journal of Organizational Behavior*, 33, 175-192.
- Neeson, R. Billington, L. & Barrett, R. (2007). Learning to solve a business problem: "Hands-on" gets results. *Industry and Higher Education*, 21(6), 465-472.
- Obschonka, M., Silbereisen, R.K. & Schmitt-Rodermund, E. (2012). Explaining Entrepreneurial Behavior: Dispositional Personality Traits, Growth of Personal Entrepreneurial Resources, and Business Idea Generation. *The Career Development Quarterly*, 60(2), 178-190.
- Oh, I.S., & Berry, C. M. (2009) The five-factor model of personality and managerial performance: Validity gains through the use of 360-degree performance ratings. *Journal of Applied Psychology*, 94, 1498-1513.
- Ones, D.S., Viswesvaran, C. & Dilchert, S. (2005). Personality at work: Raising awareness and correcting misperceptions. *Human Performance*, 18(4): 389-404.
- Rubin, R.S. & Dierdorff, E.C. (2009). How relevant is the MBA? Assessing the alignment of required curricula and the required managerial competencies. *Academy of Management Learning and Education*, 8: 208-224.
- Scott, E.D. (2000). Moral values fit: Do applicants really care? *Teaching Business Ethics*, 4: 405-435.
- Storey, D.J. (2004). Exploring the link, among small firms, between management training and firm performance: A comparison between UK and other OECD countries. *Journal of Human Resources Management*, 15(1), 112-130.
- Storey, D.J., Saridakis, S., Sen-Gupta, S., Edwards, P.K., & Blackburn, R..A. (2010) Linking HR formality with employee job quality: The role of firm and workplace size. *Human Resource Management*, 49(2): 305-329.
- Tajfel, H. and J. C. Turner: 1979, *An Intergrative Theory of Intergroup Conflict*, in W. G. Austin and S. Worchel (eds.), *The Social Psychology of Intergroup Relations* (Brooks/Cole, Monterey, CA).
- Tett, R. & Burnett, D. (2003). A personality trait-based interactionist model of job performance. *Journal of Applied Psychology*, 68, 500-517.
- Thoresen, C.J., Bradley, J.C., Bliese, P.D. & Thoresen, J.D. (2004). The Big Five personality traits and individual job performance growth trajectories in maintenance and transitional job stages. *Journal of Applied Psychology*, 89, 835-853.
- Turban, D.B. & Greening, D.W. (1996). Corporate social performance and organizational attractiveness to prospective employees. *Academy of Management Journal*, 40(3), 658-672.
- Turner, J. C. (1985). Social Categorization and The Self-Concept: A Social Cognitive Theory of Group Behavior, in E. J. Lawler (ed.), *Advances in Group Processes: Theory and Research*, vol. 2, 77-121.
- U.S. Census Bureau (2011). <http://www.census.gov/epcd/susb/2008/us/US--.HTM>
- Watson, D. & Clark, L. (1984). Negative affectivity: The disposition to experience aversive emotional states. *Psychological Bulletin*, 96, 465-490.
- Westhead, P. & Storey, D.J. (1996). Management training and small firm performance: Why is the link so weak? *International Small Business Journal*, 14(4), 13-25.
- Witteman, C., van den Bercken, J., Claes, L., & Godoy, A. (2009). Assessing Rational and Intuitive Thinking Styles. *European Journal of Psychological Assessment*, 25(1), 39-47.
- Yim, J.W & Weston, R. (2007). The Characteristics of Bioentrepreneurs in the Australian Biotechnology Industry: A Pilot Study. *Journal of Management and Organization*, 13(4), 383-406.
- Zhao, H. & Seibert, S.E. (2006). The Big Five Personality Dimensions and Entrepreneurial Status: A Meta-Analytical Review. *Journal of Applied Psychology*, 91(2), 259-271.

## APPENDIX 1

### Experimental Manipulation of Large vs. Small Organization

#### *Large Organization:*

You have been considering a job with an established company in the Tampa Bay area. This company has been in business for over 30 years. You have a clear idea of what will be expected from you in this job as the requirements and expectations are very clear and detailed. It is unlikely that you will be required to do more than the specific definition of your job. The company also has a formal training program in which you will be enrolled. The interview process at this company has been long and very formalized. You have interviewed with both people in the HR department and the area where you will work. The company also has work-life balance policies that ensure employees are able to balance their work with their life. There are many corporate levels above where you will be entering the company and the structure in place for appraising performance and promotions is detailed.

#### *Small Organization:*

You have been considering a job with a relatively new company in the Tampa Bay area. This company has been in business for 4 years. Your job is not well-defined and you will have the opportunity to do a variety of work as needed. You will definitely not be constrained by what you majored in during college. There is no formal training program and all training will be on-the-job. You interviewed with the company's founder and the person you will report to. There is no HR department at this company and few, if any, formal HR policies. There does not seem to be any clear structure or policies for appraising performance and awarding promotions. Employees work long hours and seem to do so willingly. The company structure is very flat and you will be working alongside the founder, who is also the Chief Executive Officer, and other top managers such as the Chief Operating Officer and heads of the marketing, development and finance areas.

# Promoting Social Entrepreneurship: Harnessing Experiential Learning With Technolgy Transfer to Create Knowledge Based Opportunities

Donald Lester, Middle Tennessee State University  
John Lipinski, Middle Tennessee State University

## Abstract

Technology Transfer has grown in importance as more university developed technology is reaching commercialization to the benefit of numerous stakeholders. However, 75% of university patents are never licensed for development. Often cited is the need for a product that will rapidly generate a positive cash flow. Universities have an additional opportunity. They can work to link experiential learning courses with their technology portfolios to conduct activities like prototyping, market research, and market testing and work with social entrepreneurs to help launch technologies that may prove to be both beneficial to society and to a commercial operation while educating students.

## Introduction

Social entrepreneurship, experiential learning, and technology transfer are three leading trends that have been studied widely in the past two decades. Each has led to changes in the traditional university model and to new opportunities. In this paper we build a model positing that by effectively combining these three areas, universities will find numerous opportunities that, in addition to producing better educated and trained university students, could 1) better utilize university resources, 2) provide new goods and services to underserved populations, and 3) foster new companies and service organizations. The combination of these three areas can help to alleviate many of the primary bottlenecks in getting technology to market: missed opportunities in research, design, development, and deployment.

At his inauguration, the new President of the Massachusetts Institute of Technology, L. Rafael Reif addressed the challenges of university research and the potential contribution to society. Reif stated “Society continues to need what the residential research university does better than any other institution.” He cited universities’ ability to “incubate brilliant young talent, and create the new knowledge and innovation that fuel our society.” Reif further added that “the pressures of cost and the potential of new technologies are presenting all of us in higher education with a historic opportunity: the opportunity to better serve society by reinventing what we do and how we do it. It is an opportunity we must seize.” (Chandler, 2012)

The majority of university-generated innovations fail to leave the academy. One reason is lack of institutional support, a critical component of technology transfer, particularly for social entrepreneurship technological innovations. A discussion of the literature and the three constructs of this integrative approach are presented.

## A Review Of The Literature

### *Social Entrepreneurship*

The construct of social entrepreneurship has survived multiple attempts at definition, including the effort to create social value (Peredo & McClain, 2006), the pursuit of social change (Roberts & Woods, 2005), attempting change in the social sector and willing to assume risks to accomplish that change (Dees, Emerson, & Economy, 2001), vision driven problem solving groups (Bornstein, 2004), and non-profit organizations who bring about social transformation by altering the public perception of social issues (Alvord, Brown, & Letts, 2004). Employing innovation as a unit of analysis, Dart (2004: p. 13) defined social entrepreneurship as “an encompassing set of strategic responses to many of the varieties of environmental turbulence and situational challenges that nonprofit organizations face.” Bloom and Dees (2008) take defining social entrepreneurship a step farther when they aver that social entrepreneurs are trying to solve the underlying problems, not just relieve a problem’s symptoms.

The early origins of social entrepreneurship emerged from two different sources with two different meanings. First, the term was utilized to emphasize income generation by not-for-profit ventures (Light, 2005). Second, the term referred specifically to the finding and solving of societal problems (Ashoka, 2006). Perhaps Mair and Marti (2006) integrated these two ideas most successfully when they defined social entrepreneurship as the innovative use of resources to explore and exploit opportunities that meet a social need in a sustainable manner. The individual most credited with establishing the first theoretical clarification of social entrepreneurship was Dees (1998) who outlined three primary components of the construct: Recognition and pursuit of new opportunities to create social value, continuous engagement in innovation and modification, and bold action taken without accepting perceived extant resources. It then follows that social entrepreneurs are mission driven, addressing social problems through innovativeness and risk-taking (Sullivan, Mort, Weerawardena, & Carnegie, 2003).

A parsimonious yet comprehensive definition of a social entrepreneur was put forth by Vega & Kidwell (2007: p. 16) who said the social entrepreneur is “an individual who addresses a serious societal problem with innovative ideas and approaches that have not been tried successfully by private, public, or nonprofit sector entities.” They go on to recognize that addressing societal problems cannot be undertaken without assuming an element of risk, or put another way without capital resources. The distinction to be made between traditional entrepreneurs and social entrepreneurs centers on the expected return. Being market driven, traditional entrepreneurs seek profit through the pursuit of opportunities for new goods and/or services through the formation of new relationships (Eckhardt & Shane, 2003). The ultimate goal is a sustainable return on investment. Social entrepreneurs, however, seek to correct a societal ill, with returns ultimately benefitting society (Hibbert, Hogg & Quinn, 2005).

Paralleling the field of entrepreneurship itself (Vega & Kidwell, 2007), social entrepreneurship has yet to reach an acceptable critical mass with relationship to theory development and wide-spread acceptance. However, it is increasingly being differentiated from private, public, and nonprofit sectors through the elements of innovation and risk. Based on the volumes of journal cites and other related publications, the field is growing in both practice and research.

As previous researchers have noted, social entrepreneurs may be found in at least three different sectors of the economic environment. These sectors include the for-profit arena where an innovative activity with a social purpose is actually a commercial venture (Dees & Anderson, 2003), the nonprofit arena, and a hybrid sector that mixes the for-profit and nonprofit approaches (Dees, 1998; Austin, Stevenson, Wei-Skillern, 2006). In the nonprofit sector a clear dilemma presents itself. If the organization is mission driven (Dees, Emerson, & Economy, 2001) to alleviate the oppression of some social ill, or at least somehow lessen its effect, accomplishing this mission successfully is many times the only goal of consequence for the social entrepreneur, what some have referred to as a SROI, or a social return on investment (Vega & Kidwell, 2007). However, there is also tension that results from the need of the entity to provide some kind of return to its backers (Galpin & Bell, 2010), or a tangible ROI.

### *Technology Transfer*

Roessner (2000) defines the concept of technology transfer as the movement of know-how, technical knowledge, or technology from one organizational setting to another. In the United States, the concept of technology transfer took on significant importance in 1980 with the passing of the Bayh-Dole act. The Bayh-Dole act created incentives for universities to patent technologies developed on their campuses and actively seek licensing opportunities to commercialize their intellectual property. In the years quickly following 1980, the US congress passed eight major policy initiatives dealing with technology transfer and the means of promoting it while similar trends have occurred in other nations (Lederman, 1994; Fujisue,

1998; Licht & Nerlinger 1998). European countries are also increasing the political pressure on their universities to raise research funding from industry and contribute actively to industrial innovation (Arnold et. al., 2006). While changing the model at many universities, such activities have yielded a number of benefits.

As early as 1996, the Association of University Technology Managers (AUTM) reported that technology transfer programs are integral to an academic institution's mission: education, research and public service. (AUTM 1996) The Bayh-Dole act reduced federal funding for research activities, but this had the effect of incentivizing universities to seek alternative funding streams, largely from private industry (Lipinski et. al. 2008). While obtaining funding via licensing agreements with private industry has not been without controversy, with such concerns being raised even prior to the enactment of Bayh-Dole (Mowery et. al. 2004), clearly a number of successful technologies and new companies have been nurtured via the university technology transfer process. For example, Carnegie Mellon University, in Pittsburgh, PA reports that 34% of the companies created in the state of Pennsylvania in the past five years (2007-2012) are based on university technologies (<http://www.cmu.edu/startups> accessed 8/26/2012).

There have been differing levels of success by universities and their technology transfer efforts (Phan & Siegel, 2006; Porter, 2003; Porter & Stern, 2001; Etzokowitz et. al., 1998). One issue is that university technology transfer programs often do not produce immediate results for a region. However, many programs result in a long term impact on regional growth (Florida & Cohen, 1999). Some geographic regions are more successful at capturing the economic benefits of new technologies and adapting to changes in market demand (Furman, Porter & Stern, 2002; Porter, 2003; Niosi & Banik, 2005). More importantly, Varga (2000) found that the primary factor influencing innovation activity is the presence of a university. When a university engages with a community, new ideas spur new opportunities.

Universities are primarily motivated to collaborate with industry by the need to raise additional resources required to fund research and other university activities (Cohen et. al. 1998). This requirement becomes mutually beneficial, having positive effects on academic research and private sector innovative activity (Guldbrandsen & Smeby, 2005). While examples abound of the positive effects of technology transfer, one case in point demonstrates this well. In the early 1980s, researchers at the University of California, Davis, under the direction of Dr. Raymond Rodriguez, a molecular biologist, began working on improving the quality of rice as a means of trying to alleviate the world-wide hunger issues (Lawrence, 2008). A grant from the state government was instrumental in facilitating this research. Many research directions came from this early work, and eventually, in 1993, Dr. Rodriguez, with help from an angel investor, formed a company named Ventria to pursue possible commercial applications of his team's findings. Several of his former students were involved in the enterprise.

With the assistance of some professional managers added to the firm, particularly Scott Deeter as CEO, the list of ideas was narrowed to one or two that would be both a benefit to society and potentially sustainable in terms of profitability. The result was the incorporation of two compounds, lactoferrin and lysozyme, that are naturally found in human breast milk. Both were considered natural antibiotics, and the hope was that their production on a large scale through rice would help alleviate the problem of children's diarrhea, estimated to be approximately 4 billion episodes a year by the World Health Organization (Lawrence, 2008). After much wrangling with the California authorities and rice growers, Ventria eventually landed in Kansas, with a research center in Colorado, and has become a viable entity fighting a societal ill while serving stakeholders and university research.

However, money is a key determinant in whether or not university technology is licensed and developed. Technology entrepreneurs are under enormous pressures from investors, particularly at the early stages to quickly produce a product and generate cash-flow. Such pressure on entrepreneurs has been shown to detrimentally influence decision cycles, especially major strategic decisions related to re influenced by investment (Perlow et. al., 2002). As such, only about 25% of university patents are never licensed (Kato & Stevens, 2012). The remaining 75% sit on the shelf.

### *Experiential Learning*

Recent efforts to improve higher education have focused on improving the learning process in education through the application of research from the new science of learning. Of particular interest is the stream of experiential learning (Kolb & Kolb, 2005). The Association for Experiential Education (1994, p.1) defines experiential education as a process through which a learner constructs knowledge, value, and skill from direct experience. The concept draws on the work of numerous prominent 20<sup>th</sup> century scholars who gave experience a central role in their theories of human learning and development – notably John Dewey, Kurt Lewin, Jean Piaget, William James, Carl Jung, Paulo Freire, Carl Rogers, and others to develop a holistic model of the experiential learning process and a multilinear model of adult development (Kolb, 1984). Based on his book *Democracy and Education* (1916), Dewey is often cited as the originator of experiential learning. His belief was that education was not simply the transmission of facts but the education of the entire person, and he viewed the educational experience as involving the teacher and learner engaged in purposive experience (Dewey, 1938).

Experiential learning is a holistic philosophy where carefully chosen experiences, supported by critical analysis and synthesis, are structured to require the learner to take initiative, make decisions, and be accountable for the results. This is done through actively posing questions, investigating, experimenting, being curious, solving problems, assuming responsibility, being creative, constructing meaning, and integrating previously developed knowledge (Itin, 1999). The teacher is responsible for presenting opportunities for experiences, helping students utilize these experiences, establishing the learning environment, placing boundaries on the learning objectives, sharing necessary information, and facilitating learning. The learner is challenged to move beyond what is known. (Chapman, McPhee & Proudman, 1995; Itin 1997; Kolb 1984).

### **The Effects of Experiential Learning on Entrepreneurship**

Learning is a cognitive and social process of knowledge acquisition (Gemmell 2011). Researchers (Armstrong & Mahmud, 2008; Chandler & Lyon 2009; Baum & Bird 2010; Gemmell et al. 2011) have begun exploring how the knowledge acquisition process has helped entrepreneurs generate ideas. Cognitive flexibility is one of the keys to creativity and innovation. Entrenchment inhibits an individual's ability to innovate (Pinard & Allio 2005; Kolb & Kolb 2005; Dane 2010). Spiro et. al (2003) explain how the use of knowledge in real-world settings (such as experiential learning) adds to cognitive flexibility. In addition to simply training potential entrepreneurs with "know how" courses, a study by Clark, Labuzetta, Lawrence, Sahakian and Vyakarnum (2008) suggests that teaching risk tolerance may also be desirable and encourage more entrepreneurial activity. This can be conducted through experiential learning.

Politis (2005) explains how entrepreneurs learn experientially through two different transformational modes, first by exploiting existing knowledge through testing actions similar to earlier experiences and second by exploring entirely new actions. Holcomb et. al (2009) further demonstrates that entrepreneurs gain tacit knowledge through both experience and observing the actions and results achieved by others. By exposing students to real-world experiential learning projects and discussing their experiences with groups of other similarly engaged students, they will be exposed to both modes of education.

The value of experience cannot be overstated. The inability of new and small firms to build sustainable business models is well documented, as about half of all start-ups last between five and seven years (Kuratko & Hodgetts, 2001). However, 82 % of businesses that lasted at least twenty years were still in business according to Birch, Gundersen, Haggerty, and Parsons (1999). To promote the long-term success of business enterprises, researchers in the last two decades have emphasized a sub-discipline of strategy referred to as sustainable strategic management (SSM) (Parnell, 2008). A working definition of SSM involves the strategies and related processes associated with superior performance over time from both a market and environmental perspective (Carragher, Buckley, & Carragher, 2008). One factor contributing to the failure of businesses has clearly been environmental turbulence (Stead & Stead, 2008). Many small business founders, as well as seasoned corporate executives, have found increasing environmental turbulence to be an overwhelming issue. While early strategic researchers focused on the internal importance of strategy formulation and implementation, SSM stresses the need for firms to understand the importance of, and interrelationships with, the people and environments in which the firm operates (Stead & Stead, 2008). An emphasis on strategic planning (Steiner, 1979) is one tool to assist firms, particularly new ones, in overcoming the trials of environmental turbulence.

Many technologies fail to be developed due to market failures. This is especially true in a social entrepreneurial context where technologies designed to impact the poor are perceived to be plagued by low financial returns on investment and high risk. However, numerous researchers have worked to counter this notion. Prahalad and Hammond (2002) discuss the notion of serving the world's poor profitably and observe that, in reality, consumers at the bottom of the pyramid pay much higher prices for most things than middle-class consumers. Therefore, there is a real opportunity for companies with economies of scale and efficient supply chains to capture market share by offering higher quality goods at lower prices while maintaining attractive margins. No enterprise is immune from the threat of failure, and adoption of the SSM philosophy is critical to the long-term sustainability of any organization operating in a free enterprise system, including NGOs, opportunity seeking firms, and technology transfer based start-ups. At issue, in particular, is the ability to meet the needs of both internal and external stakeholders, including consumers, employees, government regulators, and investors (Stead & Stead, 2008).

Experiential learning and technology transfer can help to eliminate the market failure problem. Students, while learning the theory and application of their craft, can help to tackle research, design, development, and deployment problems. This is low risk for universities, because even if the students' efforts fail, the primary goal of learning has still been achieved.

#### *Two EXL Examples: The Small Business Institute and the Invention Evaluation Service*

Long before the concept of experiential learning became popular, or even required, the Small Business Institute (SBI) was promoting field-based student consulting. The SBI also promotes and supports research in entrepreneurship and small business management, offering conferences, workshops and seminars for both educators and practitioners. The focus of the SBI, however, has always been on rigorous, formatted student consulting projects for small businesses and entrepreneurial start-ups.

Both graduate and undergraduate students participate, under the supervision of experienced faculty, in business consulting, technical assistance, or feasibility studies for business clients. The clients are typically charged a very low fee or none for the projects, and only a few requirements are necessary. To qualify for a referral program, a client must:

- Have a project that would fit in an academic period (typically a semester);
- Be willing to meet with the students and provide all needed information (confidentiality statements are utilized);
- And, meet any requirements needed by the specific SBI program that the client is being referred to.

Normally the SBI project is the centerpiece of a stand-alone course. The SBI provides a text (Cook & Belliveau, 2008) for the course that addresses each step of the student consulting project. The primary advantage of any experiential learning process is that students are put into an actual situation (in this case, a business problem) that requires a specific plan of action to be prepared within a limited time frame. Other benefits to students of the course include the preparation of an industry analysis, working together as a team, preparing and executing a letter of engagement, preparing a final report, and presenting that report to the business owner/operator(s). Students are also required to create and maintain a journal throughout the duration of the project. Specific learning outcomes include:

- The steps necessary to develop and facilitate a project plan;
- The group collaborative process in decision making and project performance;
- And, how to recognize and conceptualize a complex issue into a clearly written summary.

While EXL programs have a much wider scope, SBI student consulting projects represent an example of what a university could do if EXL programs were comprehensively planned to facilitate tech transfer through the utilization of student projects. EXL student teams could work across disciplines to advance technological innovations or build implementable models while business students could work in tandem, providing feasibility analysis and business consulting. Although not every university has a comprehensive business school, most offer at least limited degree programs or course offerings. One added long-term benefit to a planned EXL program is that many SBI consulting projects lead to students opening their own businesses. Since EXL programs focus on for-profit and not-for-profit projects, those worthy of advancing past the testing stage need full-time owner/operators to be successful. Entrepreneurially minded students might be willing to take up the cause and carry a new idea forward, hopefully becoming a thriving enterprise.

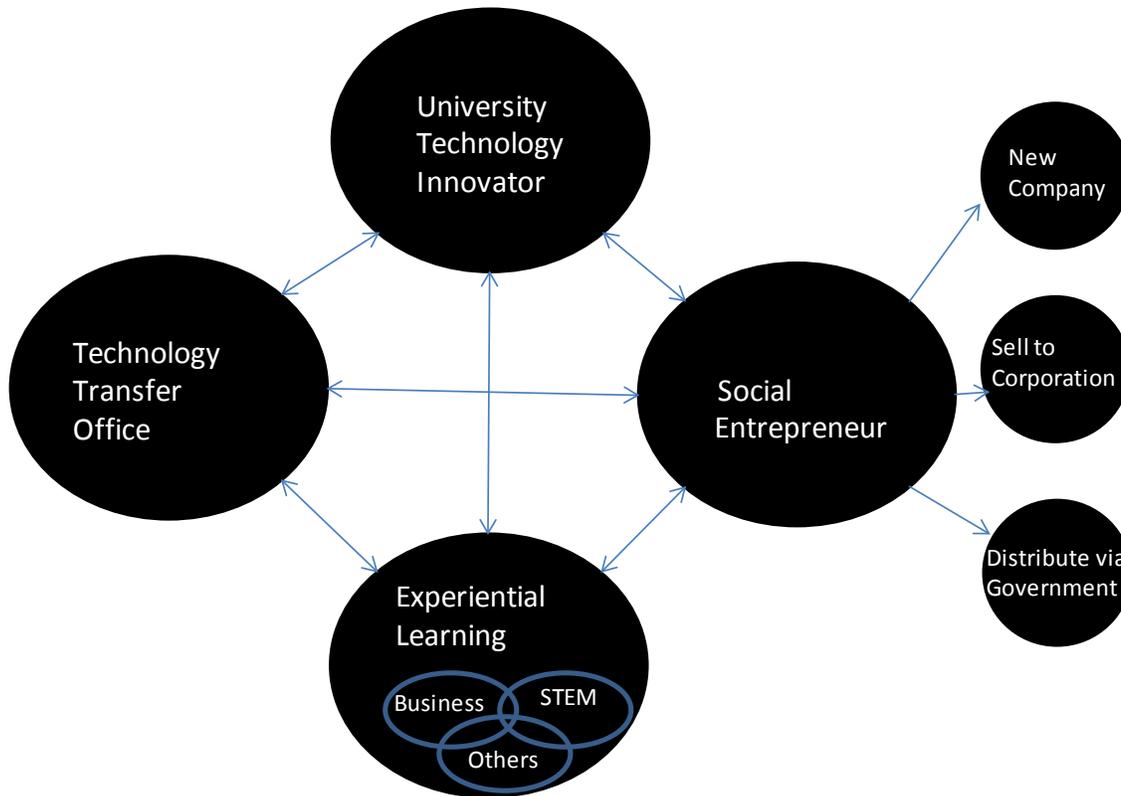
A second example of an ongoing project concerning student involvement in EXL is the Invention Evaluation Service IES at the University of the Pacific. Started in 1999, the IES utilizes new product development evaluation models that might not be available to the average new business or nascent business (Weick, 2003). While this program is limited to new inventions, products, or processes intended for strictly commercial use, the basic concept and approach could be applicable to both for or not-for profit ventures. Under the direction of faculty members from the Eberhardt School of Business, graduate research assistants evaluate new inventions based on a new product development model derived from one designed by Cooper and Kleinschmidt (1986). The model is thorough, providing information for the inventors on everything from an initial screening to market launch. This approach could easily be adapted to university innovations, involving both graduate and undergraduate students through EXL programs that would be appropriate for each depending on their level of competence.

### **A New Model**

Social entrepreneurs with institutional support will stand a better chance of succeeding in the external environment, at least in the short run. This paper proposes that university innovation can be facilitated through student experiential learning, such as the SBI field consulting project, engaging students in the preparation of feasibility studies, business plans, or business consulting, providing a link between the academic institution and the marketplace. This added step in technology transfer has the potential to accomplish several things. About 75% of university inventions or creations are never brought to market for a variety of reasons. Having direct student involvement provides an inexpensive method to analyze the potential of a new invention or perform additional development of the concept to demonstrate market viability and consumer acceptance. In addition, the students obtain invaluable experience. The link to social entrepreneurship is made when worthwhile innovations that help ameliorate societal ills can be given a thorough vetting period by a cross functional student team versed in not only business but other fields.

With the support of the inventors, university technology transfer offices, social entrepreneurs, and university departments, a vast quantity of resources can be productively directed at nascent projects. As such, universities will have the opportunity to increase the yield on their intellectual property investments, students will gain valuable learning experiences, and society will have the opportunity to benefit from these inventions. Figure 1 details the system for the key stakeholders to cooperate and illustrates the path for social entrepreneurs to act as the bridge from the University to commercial and governmental enterprises. While a social entrepreneur may develop and commercialize the product on his/her own, the possibility still exists that they may sell or license it to an existing corporation or they could work with a government entity to get the product of service to market.

Figure 1.



### Implications

The adoption of this model will enable university technology transfer offices to further develop intellectual properties in their patent portfolio or allow them to better market their portfolio. This will be achieved by developing experiential learning opportunities for students. Programs across the university will benefit as STEM programs, the Business School, and other departments like communications and the arts all have skills sets that can be tapped to increase the value of the patent portfolio. In return, students will learn valuable skills as they apply their lessons to real-world projects. Social entrepreneurs can also contribute their skills to assist with the development and have the potential to benefit as the technologies are advanced or their market potential is more clearly defined. When 75% of the average university patent portfolio goes unlicensed, there is ample opportunity to refine, further develop, and better market the existing assets. Universities will win by receiving more licensing revenue. Community stakeholders will win as market ready technologies yield new products and new companies, and the students will win via the skills and knowledge that they acquire from the experience. Social entrepreneurs bring an added dimension to the model as they will focus on technologies with the potential ameliorate societal ills. The advancement provided by the student groups will increase the potential of success for social entrepreneurs.

## References

- Alvord, S.H.B., Brown, D., and Letts, C. (2004). Social entrepreneurship and societal transformation: An exploratory study. *The Journal of Behavioral Science*, 40(3), 260-282.
- Armstrong, S. & Mahmud, A. (2008). Experiential learning and the acquisition of managerial tacit knowledge. *Academy of Management Learning & Education*, 7(2).
- Arnold, E., Brown, N., Eriksson, A., Jansson, T., Muscio, A., Nählinder, J., & Zaman R., (2006). The Role of Industrial Research Institutes in the National Innovation System: A Report to VINNOVA, *Technopolis*, October.
- Ashoka. (2006). Ashoka: Innovators for the public.
- Association for Experiential Education (1994). AEE Definition of Experiential Education. Boulder, CO.; Association for Experiential Education.
- Association of University Technology Managers (1996). AUTM Licensing Survey FY 1991 - FY 1995: A Five Year Survey Summary of Technology Licensing (and Related) Performance for U.S. and Canadian Academic and Nonprofit Institutions, and Patent Management Firms. Norwalk, CT.
- Austin, J., Stevenson, H., and Wei-Skillern, J. (2006). Social and commercial entrepreneurship: Same, different or both? *Entrepreneurship Theory and Practice*, 30, 1-22.
- Baum, J., & Bird, B. (2010). The Successful Intelligence of High-Growth Entrepreneurs: Links to New Venture Growth. *Organization Science*, 21(2), 397-412.
- Birch, D., Gundersen, J., Haggerty, A., & Parsons, W. (1999). *Corporate Demographics*. Cambridge, MA: Cognetics, Inc
- Bloom, P.N., and Dees, J.G. (2008). Cultivate your ecosystem. *Stanford Social Innovation Review*, Winter 6(1), 47-53.
- Bornstein, D. (2004). *How to change the world: Social entrepreneurs and the power of new ideas*. Oxford, UK: Oxford University Press.
- Carraher, S.M., Buckley, M.R., & Carraher, C.E. (2008). Research challenges in sustainable strategic management: Change and sustainability. *International Journal of Sustainable Strategic Management*, 1(1), 2-15.
- Chandler, D.L. (2012) We are all in this great enterprise together. MIT News. <http://web.mit.edu/newsoffice/2012/inauguration-ceremony-rafael-reif-0921.html> accessed on September 24, 2012
- Chandler, G. & Lyon, D. (2009). Involvement in knowledge-acquisition activities by venture team members and venture performance, *Entrepreneurship Theory and Practice*. 33(3) 571-592.
- Chapman, S., McPhee, P., & Proudman, B. (1995). What is experiential education? In K. Warren, M. Sakofs, & J. S. Hunt, Jr. (Eds.), *The theory of experiential education* (pp. 235-247). Boulder, CO: Association for Experiential Education.
- Clark, A., L. Labuzetta, J.N., Lawrence, B., Sahakian, S., & Vyakarnum (2008). The Innovative Brain. *Nature*, 456, 168-169.
- Cohen, W., Florida, R., Randazzese, L., & Walsh, J. (1998). "Industry and the academy: uneasy partners in the cause of technological advance." In *Challenges to the Research University*, edited by R. Noll. Washington, D.C: Brookings Institution.
- Cook, R., and Belliveau, P. (2008). *The experiential student team consulting process*, 3<sup>rd</sup> edition. Mason, OH: Cengage Learning.
- Cooper, R.G., & Kleinschmidt, E.J. (1986). An investigation into the new product process: Steps, deficiencies, and impact. *Journal of Product Innovation Management*, 3(2), 71-85.

- Dane, E. (2010). Reconsidering the trade-off between expertise and flexibility: A cognitive entrenchment perspective. *Academy of Management Review*, 35(4), 579-603.
- Dart, R. (2004). Being “business-like” in a nonprofit organization: A grounded and inductive typology. *Nonprofit and Voluntary Sector Quarterly*, 33(2), 290-310.
- Dees, J.G. (1998). Enterprising nonprofits. *Harvard Business Review*, 76, 55-67.
- Dees, J.G., Emerson, J., & Economy, P. (2001). *Enterprising nonprofits: A toolkit for social entrepreneurs*. New York, NY: John Wiley & Sons.
- Dees, J.G., and Anderson, B. (2003). Sector-bending: Blurring lines between nonprofit and for-profit. *Society*, 40(4), 16-27.
- Dewey, J. (1916). *Democracy and Education*. New York. Macmillan.
- Dewey, J. (1938). *Experience and Education*. New York. Macmillan.
- Eckhardt, J. T., and Sane, S. A. (2003). Opportunities and entrepreneurship. *Journal of Management*, 29, 333-349.
- Etzkowitz, H., Webster, A., & Healey, P. (Eds.) (1998). *Capitalizing knowledge: New intersections of industry and academia*. Albany, NY: State of New York Press.
- Florida, R., & Cohen, W. M. (1999). Engine or infrastructure? The university role in economic development. In W. Daring, R. Oakey, & S. Kauser (Eds.), *New technology based companies in the new millennium*. New York: Pergamon.
- Fujisue, K., (1998). Promotion of academia-industry cooperation in Japan — establishing the “law of promoting technology transfer from university to industry” in *Japan. Technovation*. 18, 6-7, 371-381
- Furman, J. L., Porter, M.E., & Stern, S. (2002). The determinants of national innovative capacity. *Research Policy*, 31, 899-935.
- Galpin, T.J., and Bell, R.G. (2010). Social entrepreneurship and the L3C structure: Building the gap between non-profit and for-profit ventures. *Journal of Business and Entrepreneurship*, 22(2), 29-39.
- Gemmell, R.M. (2011). *Entrepreneurial innovation as a learning system*. Doctoral Dissertation, Case Western University.
- Gemmell, R. M., Boland, R.J., & Kolb, D. (2011). The socio-cognitive dynamics of entrepreneurial ideation. *Entrepreneurship Theory and Practice*, 33(3), 1053-1073.
- Gulbrandsen, M., & Smeby, Jens-Christian, (2005). Industry funding and university professors’ research performance. *Research Policy*, 34(6), 932–950.
- Hibbert, S.A., Hogg, G., and Quinn, T. (2005). Social entrepreneurship: Understanding consumer motives for buying the big issue. *Journal of Consumer Behavior*, 4, 159-172.
- Holcomb, T., R. Ireland, et al. (2009). Architecture of entrepreneurial learning: Exploring the link among heuristics, knowledge, and action. *Entrepreneurship Theory and Practice*, 33(1), 167-192.
- Itin, C. M. (1999). Reasserting the philosophy of experiential education as a vehicle for change in the 21st Century." *The Journal of Experiential Education*, 22(2), 91-98.
- Itin, C.M. (1997). *The Orientation of social work faculty to the philosophy of experiential education in the classroom*. Doctoral Dissertation, University of Denver.
- Kato, K., & Stevens, A.J. (2012). *Technology Transfer’s Twenty Five Percent Rule*. Unpublished white paper.
- Kolb, A. Y., & Kolb, D. A. (2005). Learning styles and learning spaces: Enhancing experiential learning in higher education. *Academy of Management Learning & Education*, 4(2), 193–212.
- Kolb, D.A., (1984). *Experiential Learning: Experience as the Source of Learning and Development*. Prentice-Hall, Englewood Cliffs, N.J.

- Kuratko, D.F., & Hodgetts, R.M. (2001). *Entrepreneurship: A Contemporary Approach*, 5<sup>th</sup> ed. FortWorth, TX: Dryden Press.
- Lawrence, A. (2008). Farming pharmaceuticals: Ventria Bioscience and the controversy over plant-made medicines. Case study presented at the annual meeting of the North American Case Research Association.
- Leberman, L., (1994). A comparative analysis of civilian technology strategies among some nations. *Policy Studies Journal*, 22(2), 279-295
- Licht, G. & E. Nerlinger , (1998). New technology-based firms in Germany: A survey of the recent evidence. *Research Policy*. 26(9), 1005-1022
- Light, P. (2005). Searching for social entrepreneurs: Who might they be, where they might be found, and what they do. Paper presented at the Association for Research on Nonprofit and Voluntary Associations.
- Lipinski, J., Minutolo, M.C., & Crothers, L.M., (2008). The complex relationship driving technology transfer: The potential opportunities missed by universities. Proceedings of the Institute of Behavioral and Applied Management, pp. 112-133.
- Mair, J., & Marti, I. (2006). Social entrepreneurship research: A source of explanation, prediction, and delight. *Journal of World Business*, 41, 36-44.
- Mowery, D. C., Nelson, R.R., Sampat, B.N., & Ziedonis, A.A. (2004). Ivory Tower and Industrial Innovation. *University-Industry Technology Transfer Before and After the Bayh-Dole Act*. Stanford University Press: Palo Alto, CA.
- Niosi, J., & Banik, M. (2005). The evolution and performance of biotechnology regional systems of innovation. *Cambridge Journal of Economics*, 29, 343-357.
- Parnell, J. A. (2008). Sustainable strategic management: construct, parameters, research Directions. *International Journal of Sustainable Strategic Management*, 1(1), 35-45.
- Peredo, A.M., & McClean, M. (2006). Social entrepreneurship: A critical review of the concept. *Journal of World Business*, 41, 56-65.
- Perlow, L.A., Okhuysen, G.A., & Repenning, N.P. (2002). The speed trap: Exploring the relationship between decision making and temporal context. *Academy of Management Journal*, 45(5) 931-955.
- Phan, P. H., & Siegel, D. S. (2006). Lessons learned from quantitative and qualitative research in the U.S. and the U.K. (pp. 64): Rensselaer Polytechnic Institute. Working Paper available on-line:<http://www.rpi.edu/dept/economics/www/workingpapers/> .
- Pinard, M., & Allio, R. (2005). Improving the creativity of MBA students. *Strategy & Leadership*, 33(1), 49-51.
- Politis, D. (2005). The process of entrepreneurial learning: A conceptual framework. *Entrepreneurship Theory and Practice*, 29(4), 399-424.
- Porter, M. E. (2003). The economic performance of regions. *Regional Studies*, 37, 545-547.
- Porter, M. E., & Stern, S. (2001). Innovation: Location matters. *MIT Sloan Management Review*, 42, 28-36.
- Prahalad, C. K., & Hammond, A. (2002). Serving the World's Poor, Profitably. *Harvard Business Review*, 80(9), 48-58.
- Roberts, D., and Woods, C. (2005). Changing the world on a shoestring: The concept of social entrepreneurship. *University of Auckland Business Review*, 7(1), 45-51.
- Roessner, J.D., (2001). Technology transfer. In: Hill, C. Ed., *Science and Technology Policy in the US, A Time of Change*. Longman, London.
- Spiro, R. J., Collins, B. P., Thota, J. J., & Feltovich, P. J. (2003). Cognitive flexibility theory: Hypermedia for complex learning, adaptive knowledge application, and experience acceleration. *Educational Technology*, 44, 5-10.

- Stead, J. G., & Stead, W. E. (2008). Sustainable strategic management: an evolutionary perspective. *International Journal of Sustainable Strategic Management*, 1(1), 62–81.
- Steiner, G.A. (1979) *Strategic Planning: What every manager must know*. New York. The Free Press.
- Sullivan Mort, G., Weerawardena, J., and Carnegie, K. (2003). Social entrepreneurship: Toward conceptualization. *International Journal of Non Profit and Voluntary Sector Marketing*, 8(1), 76-88.
- Varga, A. (2000). Local academic knowledge transfers and the concentration of economic activity. *Journal of Regional Science*, 40, 289-309.
- Vega, G., and Kidwell, R.E. (2007). Toward a typology of new venture creators: Similarities and contrasts between business and social entrepreneurs. *New England Journal of Entrepreneurship*, 10(2), 15-28.
- Weick, C.W. (2003). A university-based model for evaluating inventions. *International Journal of Entrepreneurship and Innovation*, 4(4), 225-235.

# Small Business Owner Satisfaction with Financial Performance: A Longitudinal Study

Shanan Gibson, East Carolina University  
William McDowell, East Carolina University  
Michael Harris, East Carolina University

## Abstract

This exploratory study examines the financial performance satisfaction of small business owners at two time periods, once as we neared the end of the Great Recession and again three years into economic recovery. In addition to consider small business owners in general, special attention was paid to women and minority owners. Using independent samples t-tests, results indicate that business owners are more satisfied with their financial performance in 2012 than they were in 2009. However, results were not consistent for all subgroups of the population; differences exist between men and women owners and between Caucasian and minority owners. Whereas men mirrored the results for all business owners, women did not report increased satisfaction in any of the five areas of financial performance examined. Caucasian owners reported increases in four of the five areas of financial health and minority owners saw an increase in only three. In addition to the results, practical implications and areas for future research are provided.

## Introduction

The popular media is actively debating the current status of the economy and the impact that recovery is having on all Americans, including small business owners. Research by DeNardi, French, and Benson (2012) found that the Great Recession was characterized by “the most severe and persistent decline in consumption the United States has experienced...since World War II.” The activities of small businesses are typically dependent upon the expectations of the owner; currently expectations for real income growth are still quite low (DeNardi, French, & Benson, 2012). If small business owners are not satisfied with their overall financial health, they are unlikely to act in ways that contribute to the continued growth of the economy, activities such as increased hiring, marketing expenditures, and overall production.

The current study examines the satisfaction of small business owners with their financial performance at two points in time – 2009 and 2012. Surprisingly, there is a paucity of research on small firm performance during economic recessions. Latham (2009) examined the impact of the 2001-2003 recession on small businesses in the software industry. The findings showed that small firms generally rely on their flexibility to serve customers and a renewed focus on their revenue generating activities, while larger firms focused more on cost reduction strategies. This seems to indicate a situation where small businesses were more customer-centered during tough economic times than their larger peers, who chose to concentrate more on reducing expenses. Furthermore, it is noteworthy that Latham found that managers of larger businesses felt more threatened by economic pressures during a recession than the managers/owners of small businesses. Perhaps this is due to the entrepreneurial mindset of small business owners, or their confidence in their abilities to adapt to the more uncertain environment. Nevertheless, it is important to provide additional research on the mindset of small business owners during tough economic times, particularly in regards to their perceived financial wellness. Thus, the purpose of this study is to examine small business owner satisfaction with financial performance during the most recent economic recession and several years into the current economic recovery.

## Literature Review

### *Small Business and the Economy*

The small business sector plays a significant role in the U.S. economy, functioning as a major source of innovation, supplier of goods and services, and creating a means to economic opportunity for millions of Americans. In addition, small businesses account for approximately one-half of the privately generated GDP

in the country, 55% of jobs in the private sector, and create approximately two out of every three net new jobs in the United States since the early 1970's (National Federation of Independent Businesses (NFIB), 2012a). However, for small business owners to survive and thrive, they must maintain adequate levels of financial health. Small business owners, like most Americans, are not immune to the ups and downs in the U.S. economy.

Prior research has offered mixed findings with regard to the impact of a recessionary period on small businesses. Some argue that the flexibility and adaptability of small firms makes them more suited to environmental changes (Latham, 2009; Carr, Topping, Woodard & Burcham, 2004, Andren, Magnusson & Sjolander, 2003). Others suggest that the resource limitations of small businesses make them more susceptible to failure in harsh economic conditions (Lawless & Warren, 2005); resource constraints generally do not allow smaller firms the time needed to survive a prolonged slowdown in the economy and make them more sensitive to changing economic conditions. This, as suggested by Latham (2009), makes it critical for small businesses to employ the appropriate fiscal strategy in order to effectively deal with such situations since they cannot rely on excess resources to offset slow financial periods.

Consistent with this, Hofer (1980) developed a framework for strategic fiscal responses during an economic recession; the responses include asset reduction, cost reduction, and revenue generation. Hofer argues that the specific conditions of a recession can cause firms to adopt a strategy based on one of these three responses. The appropriate response is determined by cash flow and the firm's proximity to its breakeven point. Since small businesses often struggle with economies of scale, simply reducing costs is typically not adequate to deal with strained financial conditions. Rather, small businesses should concentrate on revenue generating activities, often in niche markets away from low cost competition (Latham, 2009; Beaver & Ross, 2000). While larger firms may focus on reducing expenses during difficult times, small businesses may consider investing resources in areas such as sales, marketing, and supply chain management (Latham, 2009). This indicates that organizational size can be a hindrance to the adaptability necessary for revenue growth and customer service in a recessionary period.

One potential indicator of small business health is the buying and selling of businesses. Some argue that when small businesses are being sold this is indicative of improved availability of credit in the market. If this is indeed the case, 2012 is on a positive upswing with year-to-date business sales above 2011 figures, a higher median asking price, and higher median revenues for the businesses being sold (CNBC, 2012).

Another indicator of small business success is the actual perceptions of the business owners. In March 2011, only 9% of microbusiness owners said the overall economy was good or excellent; this is well below the 2007 pre-recession 50% level (Shane, 2011). According to the Small Business Optimism Index (NFIB, 2012b), the overall optimism of small businesses has been on the rise in the past several years with the index rising from 86.5 during the summer of 2009 to 91.2 during the fall of 2012. However, the increase in optimism is tempered by "uncertainty over economic conditions" which is ranked as the second most pressing concern by small business owners (NFIB, 2012c). Although robust economic recovery has typically followed previous recessions, the current recession recovery has been quite slow, resulting in significant loss of consumer confidence.

Given the slowness of the current recovery in conjunction with increased sales of existing small businesses and apparent increases in overall confidence, it is difficult to predict to what degree small business owners are actually satisfied with their financial health. As such, the current study aims to empirically examine owner-reported satisfaction with financial performance at two points in time – first in 2009 and again in 2012.

### *Gender and Minority Issues*

The idea of a Glass Ceiling in business is not new; the term was coined to describe women in corporate settings who faced barriers when attempting to rise within the organizational ranks (Hymowitz & Schellhardt, 1986). Indeed, many argue that entrepreneurship among women and minorities has actually grown in response to this glass ceiling as business ownership may provide an alternative avenue to financial security and business success (Acs, Tarpley & Phillips, 1998; Gibson, Harris & Mick, 2007). Some research even indicates that future job growth is heavily dependent upon women-owned small businesses; by 2018 women entrepreneurs are expected to create better than five million new jobs nationwide (Lesonsky, 2010). Women currently start businesses at twice the rate of their male counterparts; by the year 2020 women are expected to own nearly half of all U.S. companies (BizOffice, 2012). Similarly, minorities currently own 5.8 million firms, generating \$1 trillion in revenues and employing almost six million people (U.S. Department of Commerce, 2007). Furthermore, the rate of business ownership by minority women is increasing more rapidly than non-minority women; minority women-owned firms account for more than half the increase in women-owned organizations (U.S. Department of Commerce, 2010).

Significant fiscal differences exist between businesses owned by women versus men and minorities versus non-minorities. For example, women and minorities are known to start with less capital, have greater difficulty obtaining loans, have less of a credit history, and are also less likely to take on additional debt to expand (Boden & Nucci, 2000; Shaw, Carter, & Brierton, 2001; Verheul & Thurik, 2001; Coleman, 2002; Fairlie & Robb, 2010; U.S. Department of Commerce, 2010). According to the census, minority-owned firms averaged \$179,000 in gross receipts in 2007, but this is less than half the \$490,000 average of those companies run by non-minorities (Fairlie & Robb, 2010). Finally, women and minorities are also more likely to fail with starting a new venture (Carter, Williams, & Reynolds, 1997; Boden & Nucci, 2000; Robb, 2002). Unfortunately, it is difficult to determine if this represents differences in preference and strategy or the impact of constraints such as less favorable loan conditions and diminished tolerance for risk.

Because we know that access to financial resources and overall success rates are not always comparable for men and women and minorities versus non-minorities in entrepreneurship, it is plausible that differences in financial satisfaction will also exist across these subgroups of the population.

## **Method**

### *Participants*

Small business owners who had received previous assistance from the North Carolina Small Business and Technology Development Center (SBTDC) were contacted via email and asked to complete an anonymous online survey regarding their small business and its developmental needs. The surveys were conducted at two distinct points in time – the first survey was conducted in 2009 and had a total of 270 responses received (18% response rate) of which approximately 237 were usable (others were incomplete). This sample was 55% male and 50% ethnic minority (non-Caucasian). The average age of respondents was 49 years and the average length of time that individuals had been in business was 10.7 years. The second survey was conducted in 2012 and had a total of 159 responses received (16% response rate) of which approximately 105 were usable (others were incomplete). This sample was 40% male and 51% ethnic minority (non-Caucasian). The average age of respondents was 53 years and the average length of time that individuals had been in business was 15.6 years.

### *Measures*

Satisfaction with one's financial outcomes is a multifaceted construct. The current paper examines the degree to which small business owners have experienced a change in satisfaction with their financial health at two distinct points in time. It also considers whether changes in satisfaction are the same for men and women as well as for Caucasian and minority small business owners.

As part of both surveys, participants provided demographic information, including gender, age, and ethnicity. Participants were also asked to indicate the level of satisfaction with various aspects of financial performance utilizing a five-point Likert scale. These items, along with their descriptive statistics at each point in time and for the subgroups of interest, are shown in Table 1.

### Analyses

Independent samples t-tests were computed to ascertain if significant differences in financial satisfaction exist between time one (2009) and time two (2012). Although both groups of respondents represent clientele of the North Carolina SBTDC, they were not actually the same group of individuals; as such a paired-samples model was not appropriate.

### Results

Overall, results indicate that small business owners have had increasing satisfaction with their financial outcomes during the past three years. Revenue growth ( $p=.001$ ), profit margin ( $p=.006$ ), cost containment ( $p=.037$ ), market share ( $p=.004$ ), and return on new products or services ( $p=.000$ ) all had significantly higher ratings of owner satisfaction in 2012 than they did in 2009.

Table 1. Descriptive Statistics for Financial Health Items

|               | Time | Total |       | Males |       | Females |       | Caucasians |       | Minorities |       |
|---------------|------|-------|-------|-------|-------|---------|-------|------------|-------|------------|-------|
|               |      | Mean  | SD    | Mean  | SD    | Mean    | SD    | Mean       | SD    | Mean       | SD    |
| Revenue       | 2009 | 2.58  | 1.030 | 2.56  | 1.037 | 2.62    | 1.048 | 2.56       | 1.094 | 2.61       | .940  |
| Growth        | 2012 | 3.03  | 1.232 | 3.11  | 1.175 | 2.85    | 1.292 | 3.04       | 1.200 | 3.00       | 1.354 |
| Profit Margin | 2009 | 2.69  | 1.023 | 2.64  | 1.011 | 2.80    | 1.052 | 2.70       | 1.032 | 2.68       | 1.017 |
|               | 2012 | 3.05  | 1.149 | 3.06  | 1.084 | 2.98    | 1.230 | 3.09       | 1.071 | 2.92       | 1.382 |
| Cost          | 2009 | 3.08  | 1.000 | 3.03  | .990  | 3.19    | 1.012 | 3.30       | .934  | 2.77       | 1.010 |
| Containment   | 2012 | 3.33  | .974  | 3.32  | .864  | 3.30    | 1.114 | 3.32       | .919  | 3.36       | 1.150 |
| Market Share  | 2009 | 2.67  | .854  | 2.64  | .830  | 2.73    | .898  | 2.65       | .829  | 2.70       | .892  |
|               | 2012 | 2.99  | .970  | 3.03  | .905  | 2.87    | 1.031 | 2.94       | .944  | 3.17       | 1.049 |
| Return on     | 2009 | 2.81  | 1.000 | 2.84  | .907  | 2.80    | 1.112 | 2.95       | .911  | 2.60       | 1.085 |
| New Product   | 2012 | 3.26  | .836  | 3.34  | .728  | 3.08    | .941  | 3.22       | .858  | 3.38       | .770  |
| or Services   |      |       |       |       |       |         |       |            |       |            |       |

Despite this overall improvement in satisfaction, the improvement was not consistent across men and women business owners. Although men mirrored the across-the-board consistency in improvement seen in the overall group [revenue growth ( $p=.002$ ), profit margin ( $p=.011$ ), cost containment ( $p=.054$ ), market share ( $p=.005$ ), return on new products or services ( $p=.000$ )], women did not experience increases in satisfaction in any of these categories [revenue growth ( $p=.290$ ), profit margin ( $p=.398$ ), cost containment ( $p=.570$ ), market share ( $p=.479$ ), and return on new products or services ( $p=.187$ )].

When examining minorities and non-minorities in terms of satisfaction with financial outcomes, Caucasians showed satisfaction gains across four of the five categories [revenue growth ( $p=.004$ ), profit margin ( $p=.012$ ), market share ( $p=.032$ ), and return on new products or services ( $p=.044$ )], but did not have improved satisfaction with regard to cost containment ( $p=.886$ ). Minorities showed satisfaction gains on three of the five financial factors [cost containment ( $p=.015$ ), market share ( $p=.033$ ), and return on new products or services ( $p=.002$ )], but did report significant gains in revenue growth ( $p=.106$ ) or profit margin ( $p=.352$ ).

## Discussion and Practical Implications

Although the National Federation of Independent Businesses survey found that 2009 was the worst year in decades for small business owner optimism, this optimism has improved in the years since. Furthermore, according to the SBA, credit conditions are improving for small businesses. In mid-2010 commercial banks began to ease the tight lending conditions placed upon small businesses since 2007. Furthermore, venture capital investment dollars began to increase in mid-2010 (SBA, 2012). Consistent with these positive outcomes, The ADP Employment report indicates that companies with 49 or fewer employees have been increasing their payrolls in recent years; they employed 2.6% more people in March 2012 than they did in July 2009, when the economic recovery began (ADP, 2012). Hence, it appears that on a national level the financial outlook for small businesses is indeed improving.

Our study focused on a much smaller demographic, small business owners in North Carolina at two periods in time – 2009 and 2012. Consistent with findings at the national level, small business owners in North Carolina reported significantly lower satisfaction with their financial performance in 2009 than they did in 2012. Given that most analysts characterize 2009 as marking the “official end” of the Great Recession, our findings substantiate that small business owners perceive an overall improvement in their fiscal well-being.

Unfortunately, improvements in financial satisfaction have not been universal in North Carolina. Research has noted that in general, women and minorities tend to be less optimistic overall with regard to their expectations for success in new enterprises (Carter, 2000). Our findings as related to financial satisfaction are consistent with this. These lower levels of satisfaction may indicate that these groups are experiencing slower levels of economic improvement. It also may be indicative of the fact that these groups are still having a more difficult time than their non-minority counterparts obtaining access to capital and other resources that are related to financial success. Unfortunately, published research at the national level has not yet begun to report on these discrepancies in outcomes. As such, our findings indicate a significant need for further research across a national demographic.

Interestingly, prior research has indicated that minority business owners often have limited potential because they are overly dependent on a smaller customer base and often operate in segregated business environments (Sriram, Mersha & Herron, 2007). Their inability to attract customers from more traditional markets often forces them to be involved in micro businesses in the retail and service sectors, which generally have higher failure rates (Sriram, Mersha & Herron, 2007). Fortunately, however, recent evidence seems to indicate that the number of women and minority business owners has been on the rise since the 1990s and is becoming more of a viable career option (Fairlie, 2010; Martin, Wech, Sandefur & Pan, 2006). As suggested by the Global Entrepreneurship Monitor, minority involvement in the entrepreneurial process can play a critical role in accelerating the overall pace of entrepreneurial activity within a national economy (Reynolds, Camp, Bygrave, Autio, & Hay, 2001).

Although ratings of satisfaction were improved in general, they still do not indicate a cadre of small business owners who are particularly pleased with their current financial health. Recovery is slow; although real gross domestic product is growing, it is doing so less rapidly than in any other recovery period, nominal home prices are still at very low levels and prices have continued to fall, consumers continue to avoid taking on new debt, and the unemployment rate stubbornly remains high (Walker, 2012). This may explain why the 2012 ratings of financial satisfaction are not particularly high overall even though they statistically improved since 2009 (responses were provided on a five point likert scale; the vast majority of means ranged from 2.5 – 3.0 and none exceeded 3.38). So, whereas improvement may indicate better outcomes in recent years, overall scores may represent an adoption of a new frame of reference. Perhaps the expectations of small business owners have shifted downward to reflect the realities of the current economy as opposed to actual improvement. If this is indeed the case, as a nation that relies heavily on its small businesses for job creation, technological innovation, and overall economic prosperity, we still have a long way to go.

Given this new reality and potentially lowered expectations, successful small businesses must continue to adapt to the strained conditions of the U.S. marketplace. This may require a willingness of small business owners to develop a more strategic approach that allows them to best serve customers and identify relationships with greater long-term potential. Research by Bumgardner, Buehlmann, Schuler, and Crissey (2011) suggests that during tough economic circumstances smaller firms must adopt a strategy that emphasizes product or service customization and superior customer service. This is often best achieved by focusing on niche markets where larger firms are unable to take advantage of economies of scale or scope (Bumgardner et al, 2011; Penrose, 1995).

In addition, small businesses should serve local markets and work with suppliers and vendors within their own geographical region. These types of connections allow smaller firms to develop agreements based on open communication and trust, thereby leading to more long-term mutually beneficial relationships (McDowell, Harris, & Gibson, 2010; Bumgardner, Romig, & Luppold, 2007). Fortunately, most small businesses already focus on their local customers and suppliers; but the missing link may be their inability in the past to adopt a strategic approach that maximizes the value of these relationships.

By focusing on niche markets, small businesses are able to use their flexibility to provide better service, which can help offset price sensitivity and resource limitations. Smaller firms rarely compete with larger corporations based on price or economies of scale. However, customer responsiveness and specialization can create a substantial competitive advantage, particularly during an economic recession (DeDee & Vorhies, 1998). Bumgardner et al. (2011) suggest that this type of advantage can help small businesses survive and perhaps thrive in harsh economic conditions.

### **Future Research and Conclusions**

While this represents an empirical examination of the satisfaction levels of small business owners, additional research should delve deeper into the literal performance of small businesses during the past economic recession. Future studies should address the strategic decisions of small business owners as they adapt to the new realities of the business world. This should include research that critically investigates potential differences based on personal factors such as demographics, education, business skills, and prior entrepreneurial experience. Other studies should also consider the impact of organizational size and resources and how these factors affect financial and operational performance. Our findings provide insight into the outcomes experienced by small business owners and point toward the need for future research. With a more nuanced understanding of small business performance during this most recent recessionary period and knowledge gained from future studies, actionable research can point the way toward preparing small business owners so they are better able to adapt and survive during future economic downturns.

### **References**

- Acs, Z., Tarpley, F. A., & Phillips, B. D. (1998). The American evolution: The role and impact of small firms. Washington, DC: SBA Office of Advocacy. Retrieved 8/30/2012 from: [http://www.sba.gov/advo/stats/econ\\_arch/evol\\_pap.html](http://www.sba.gov/advo/stats/econ_arch/evol_pap.html).
- Andren, L., Magnusson, M. & Sjolander, S. (2003). Opportunistic adaption in start-up companies. *International Journal of Entrepreneurship and Innovation Management*, 3(5/6), 546-562.
- ADP. (2012). June 2012 ADP National Employment Report. Retrieved 9/10/12 from: [http://www.adpemploymentreport.com/PDF/FINAL\\_Report\\_June\\_12.pdf](http://www.adpemploymentreport.com/PDF/FINAL_Report_June_12.pdf).
- Beaver, G. & Ross, C. (2000). Enterprise in recession: The role and context of strategy. *International Journal of Entrepreneurship and Innovation*, 1(1), 23-31.
- BizOffice (2012). Statistics on women's business ownership. Retrieved 9/10/12 from: <http://www.bizoffice.com/statistics-on-womens-business-ownership>.

- Boden, R. & Nuccie A. (2000). On the survival prospects of men's and women's new business ventures. *Journal of Business Venturing*, 15(4), 347-362.
- Bumgardner, M., Buehlmann, U. Schuler, A., & Crissey, J. (2011). Competitive actions of smaller firms in a declining market. *Journal of Small Business Management*, 49(4), 578-598.
- Carr, J, Topping, C., Woodard, B., & Burcham, M. (2004). Health care entrepreneurship in the Nashville region: Societal linkages, change dynamics, and economic responses. *Journal of Applied Management and Entrepreneurship*, 9(1), 49-64.
- Carter, S. (2000). Improving the numbers and performance of women-owned businesses; Some implications for training and advisory services. *Education + Training*, 42(4/5), 326-334.
- Carter, N. M., Williams, M., & Reynolds, P. D. (1997). Discontinuance among new firms in retail: The influence of initial resources, strategy, and gender. *Journal of Business Venturing*, 12(2), 125-145.
- Coleman, S. (2002). Constraints faced by women small business owners: Evidence from the data. *Journal of Developmental Entrepreneurship*, 7(2), 151-174.
- CNBC. (2012). Owners are selling businesses. Is the economy improving? Retrieved 8/28/2012 from: [http://www.cnbc.com/id/48490511/Owners\\_Are\\_Selling\\_Businesses\\_Is\\_the\\_Economy\\_Improving](http://www.cnbc.com/id/48490511/Owners_Are_Selling_Businesses_Is_the_Economy_Improving).
- DeDee, J. K. & Vorhies, D. W. (1998). Retrenchment activities of small firms during economic downturn: An empirical investigation. *Journal of Small Business Management*, 36(3), 46-61.
- De Nardi, M., French, E., & Benson, D. (2012). Consumption and the Great Recession. *Economic Perspectives*, (1), 1-16.
- Fairlie, R. W. (2010). *Kauffman Index of Entrepreneurial Activity, 1996-2009*. Kansas City, MO: Kauffman The Foundation of Entrepreneurship.
- Fairlie, R. W. & Robb, A. M. (2010). Disparities in capital access between minority and non-minority-owned businesses: The troubling reality of capital limitations faced by MBEs. Report developed by the U.S. Department of Commerce, Minority Business Development Agency. Retrieved 9/10/12 from: <http://www.mbda.gov/sites/default/files/DisparitiesinCapitalAccessReport.pdf>.
- Gibson, S. G., Harris, M. L., & Mick, T. D. (2007). A glass ceiling in entrepreneurship? *SAM Management in Practice*, 11(4), 1-8.
- Hofer, C. W. (1980). Turnaround strategies. *Journal of Business Strategy*, 1(1), 19-31.
- Hymowitz, C. & Schellhardt, T. D. (1986, March 24). The glass ceiling. *The Wall Street Journal*. Special report on the corporate woman.
- Latham, S. (2009). Contrasting strategic response to economic recession in start-up versus established software firms. *Journal of Small Business Management*, 47(2), 180-201.
- Lawless, R. M. & Warren, E. (2005). The myth of the disappearing business bankruptcy. *California Law Review*, 93(3), 743-795.
- Lesonsky, R. (2010). Women business owner to lead the nation in job creation. Small Business Trends. Retrieved 9/10/12 from: <http://smallbiztrends.com/2010/01/women-business-owners-to-lead-the-nation-in-job-creation.html>.
- Martin, W., Wech, B., Sandefur, J. & Pan, R. (2006). African American Small Business Owners' Attitudes Toward Business Training. *Journal of Small Business Management*, 44(4), 577-591.
- McDowell, W. C., Harris, M. L., & Gibson, S. G. (2010). The Impact of Trust and Dependency on Business Performance: A Study of SME Suppliers. *Small Business Institute® Journal*, 6(1), 41-62.
- NFIB (2012a). 411 small business facts. Retrieved 8/29/2012 from: <http://www.411sbfacts.com/speeches.html>.
- NFIB. (2012b). Small Business Economic Trends. Retrieved 8/29/2012 from: <http://www.nfib.com/Portals/0/PDF/sbet/sbet201208.pdf>.

- NFIB. (2012c). Small Business Problems & Priorities. Retrieved 8/29/2012 from: <http://www.nfib.com/Portals/0/PDF/AllUsers/research/studies/small-business-problems-priorities-2012-nfib.pdf>.
- Penrose, E. (1995). *The Theory of the Growth of Firms*, 3<sup>rd</sup> edition. Oxford, NY: Oxford University Press.
- Reynolds, P. D., Camp, S. M., Bygrave, W., Autio, E., & Hays, M. (2001). *Global entrepreneurship monitor 2001 executive report*. Kansas City, MO: E.M. Kauffman Foundation.
- Robb, A. M. (2002). Entrepreneurial performance by women and minorities: The case for new firms. *Journal of Developmental Entrepreneurship*, 7(4), 383-397.
- SBA (2012). Frequently asked questions. Retrieved from the Advocacy Small Business Statistics and Research 9/10/12: <http://web.sba.gov/faqs/faqIndexAll.cfm?areaid=24>.
- Shane, S. (2011). Microbusiness perceptions of economic conditions still weak. Retrieved 9/10/12 from: <http://smallbiztrends.com/2011/05/chart-microbusiness-perceptions-economic-conditions.html>.
- Shaw, E., Carter, S., Brierton, J. (2001). *Unequal entrepreneurs: Why female enterprise is an uphill business*. London: The Industrial Society.
- Sriram, V., Mersha, T. & Herron, L. (2007). Drivers of urban entrepreneurship: An integrative model. *International Journal of Entrepreneurial Behaviour & Research*, 13(4), 235-251.
- U.S. Dept. of Commerce. (2007). Survey of business owners. Advocacy-funded research by Open Blue Solutions. Retrieved 8/30/2012 from: [www.sba.gov/advo/research/rs291.pdf](http://www.sba.gov/advo/research/rs291.pdf).
- U.S. Dept. of Commerce. (2010). Women-owned businesses in the 21<sup>st</sup> century. Report prepared by the Economics and Statistics Administration for the White House Council on Women and Girls. Retrieved 9/10/12 from: <http://www.esa.doc.gov/sites/default/files/reports/documents/women-owned-businesses.pdf>.
- Verheul, L., & Thurik, R. (2001). Start-up capital: Does gender matter? *Small Business Economics*, 16(4), 329-345.
- Walker, D. (2012). Quarterly update: The economic recovery in historical context. Council on Foreign Relations, Maurice R. Greenberg Center for Geoeconomic Studies. Retrieved 9/10/2012 from: <http://www.cfr.org/geoeconomics/quarterly-update-economic-recovery-historical-context/p25774>.

# South American Family Business: A Gender-Based Analysis

Robert Lussier, Springfield College  
Matthew Sonfield, Hofstra University

## Abstract

This research analyzed a variety of managerial activities and characteristics of a sample of 210 family businesses in South America. Supporting much of the recent literature, no statistically significant gender relationships were found. These results are analyzed and implications for family business owner-managers, for advisors to such businesses, for the developing theory in family business, and for researchers in the field are presented.

## Introduction

Studies of gender differences and similarities in managerial and entrepreneurial behavior have been a small but growing component of the research literature in recent decades (Gatewood *et al.*, 2003; Gupta *et al.*, 2009). Yet in spite of the increase of women in the entrepreneurial and managerial ranks, a consensus of research findings with this focus is far from being obtained (Sonfield & Lussier, 2005, 2009). Thus the research question is: What is the relationship between gender and the ways in which male and female owner/managers run family businesses? This study investigates eleven well-established issues of family business, analyzing data obtained from 210 family businesses in Argentina and Peru, with the objective of testing whether similarities and differences exist between female and male owner/managers of these businesses. (“Gender” is used here simply as a synonym for “sex” and not with the “behavior versus biology” differences in meaning sometimes found in the social sciences literature.) While Agency Theory and Resource-Based View Theory may be the most-utilized bases for family business research, gender-based prior research offers an opportunity to engage in new investigations into the nature of family business managerial behavior. Thus, this analysis makes a theoretical contribution to the mixed results in the currently limited body of literature dealing with gender issues in family business. This study’s findings, in combination with other current and future investigations into this issue can lead to the eventual development of theory and models which can strengthen our understanding of, and provision of assistance to, various categories of family businesses.

Family businesses constitute a highly important component of most countries’ economies (Astrachan & Shanker, 2003; Dennis, 2003; Kellermanns *et al.*, 2008). In the United States, an estimated 80 to 90 percent of the total 15 million businesses are family businesses (Carsrud, 1994; Kets de Vries, 1993; Poza, 2007) and contribute 50 to 60 percent of the total Gross National Product, about 60 percent of employment, and have higher annual sales than non-family businesses (Astrachan & Shanker, 2003; Bellet *et al.*, 1995; Chaganti & Schner, 1994; McCann *et al.*, 1997; Morris *et al.*, 1997). Estimates classify 35 percent of *Fortune 500* firms as family owned and about one-third of all *Fortune 500* companies are family-controlled (Carsrud, 1994, Poza, 2007). Data from most other countries provide a similar picture, often with even higher percentages (Morck & Yeung, 2003; Rottenberg, 2002).

Family business as a field of study has grown from modest beginnings to a substantial conceptual and theoretical body of knowledge at the start of the twenty-first century (Pieper & Klein, 2007). Yet a variety of definitions of “family business” continue to serve as the basis for research in this field. (Birley, 1997; Chua *et al.*, 1999; Litz, 1995; Westhead & Cowling, 1998). Some definitions focus on the degree of family *ownership*, others focus on the degree of family *involvement* in the management operations of the firm, and still others emphasize owners’ *perceptions*, i.e. a “family firm” is one in which owner-managers *perceive* their company to be a “family business” and consciously support this perception by including benefits to the

family as major components of the firms's performance objectives (such as tax benefits for the family above and beyond simple profit maximization). *Perception* as a family business might also increase owners' and management's goals and efforts to continue family involvement in the management of the firm by training and supporting younger generation members of the family toward management position. Most researchers today use a combination of these factors (Astrachan & Shanker, 2003), and "family business" and "family firm" are used interchangeably in the literature. The authors see this "combination" definition as the most useful for this type of family business research; thus this study combined *ownership*, *involvement in operations*, and *perception* for its definition of "family business," with the third criterion being the final determinant.

## Foundations in Prior Research

### *Gender Differences in Management*

Since the 1980s a sizable body of literature has developed with a focus on possible similarities and differences between men and women business managers (Bennett & Dann, 2000; Carter, *et al.*, 1997; Chaganti & Parasuraman, 1996; Powell & Ansic, 1997, Sonfield & Lussier, 2009; Wagner, 2007). Certainly, this body of research has been influenced and supported by the growing number of women in the management workplace, both in the corporate and entrepreneurial environments and, more specifically, in the family business context (Baines & Wheelock, 2000; Bennett & Dann, 2000; Hughes, 2003; Jome *et al.*, 2006; Moore & Buttner, 1997; Pyromalis *et al.*, 2004; Weller & Bernasek, 2001). However, in comparison to the much larger body of literature which focuses on male business managers (either by design or by oversight), this women-manager research is much more limited in size and in findings (Chaganti & Parasuraman, 1996; Lewis, 2006; Sonfield *et al.*, 2001).

With regard to managerial and entrepreneurial behavior, since the 1970s, the pattern of research findings has moved from an earlier consensus of gender differences to a more current concurrence toward gender similarities. Earlier studies found that women managers were more cautious, less confident, less aggressive, easier to persuade, and had inferior leadership and problem solving abilities than did male managers. On the other hand, more recent research provides mixed conclusions but tend to emphasize more gender similarities than differences. A variety of both older and recent studies confirm this trend (Carsrud *et al.*, 1986; Chaganti & Parasuraman, 1996; Johnson & Powell, 1994; Powell & Ansic, 1997; Sonfield *et al.*, 2001; Watson, 2002)

More specifically, some researchers have found that there are no significant gender differences in management decision-making values or styles (Chaganti, 1986; Powell, 1990). Other researchers have determined that men and women entrepreneurs possess more similarities than differences in decision-related personality traits (Birley, 1989; Collins-Dodd *et al.*, 2004; Sexton & Bowman-Upton, 1990). And other studies have concluded that males and females are equally successful in making decisions under conditions of risk (Hudgens & Fatkin, 1985; Johnson & Powell, 1994), are equally effective in roles of leadership (Eagly *et al.*, 1995; Hollander, 1992), and are equally capable of processing and reacting to information (Hyde 1990; Stinerock *et al.*, 1991).

Some recent gender-related studies have moved beyond basic issues of management behavior and performance, and have examined women entrepreneurs with more specific focuses and/or in light of newly-used theoretical perspectives. For example, Bird and Brush (2002) differentiated between the "socialized" perspective of "feminine" versus "masculine" and the "biological" perspective of "male" versus "female"; Gill (2007) focused on "the entrepreneurial self"; Light (2007) based his investigations upon the "ethnic economy literature"; Marlow and Patton (2005) probed the availability and access to capital; Renzulli *et al.*(2000) concentrated on social capital issues; Verheul *et al.*(2006) focused on female labor force participation and Wagner (2007) studied the decision to become self-employed.. And not all recent studies

support gender similarities. Especially beyond North America, women have been more constrained by cultural norms and values, and thus may have less access to credit (Kim, 2006) and be less likely to create new businesses (Minniti & Nardone, 2007; Wagner, 2007).

### *Women in Family Business*

The proportion of women family-member managers in family businesses is growing in many countries (Smith, 2007; Wilson *et al.*, 2004). For example, it is estimated that women now own more than 33% of all North American family firms (Astrachan, 2002). Even so, there have been few research studies specifically focusing on women in family business, and those studies which were conducted were more often conceptual rather than empirical (Bowman-Upton & Heck, 1996; Hisrich & Fülöp, 1997). These studies have tended to investigate issues of women's roles in family firms, family relationships, the "glass ceiling" and other aspects of gender bias, and succession planning (Barbieri, 1997; Cole, 1997; Galiano & Vinturella, 1995; Gundry & Welsch, 1994; Harveston *et al.*, 1997; Iannarelli, 1992; Nelton, 1998; Rowe & Hong, 2000). Other studies have focused on similarities and differences in performance, with mixed conclusions (Danes *et al.*, 2005; Fasci & Valdez, 1998; Shim & Eastlick, 1998; Watson, 2002). Still other studies have investigated social capital as a possible differentiating factor for men and women in family businesses (Renzulli *et al.*, 2000), the social policy implications with regard to supporting women's participation in family businesses (Wilson *et al.*, 2004), and gender influences on the succession process in family firms (Pyromalis *et al.*, 2004). And a recent Spanish study has focused on the traditional family environment, and how women family members impact family businesses from the home (Cappuyns, 2007).

With specific regard to differences between men's and women's management activities and styles in family firms, the few conclusions that have been reached tend to be general. For example, women have been found to be more dependent and have a greater concern for others, while men have been characterized as more independent. Thus women have been described as "peacemakers," "mediators" and "nurturers" in their roles as family business owners and managers (Cole, 1997).

### **Research Variables and Hypotheses**

Thus, as discussed above, there have been relatively few prior research studies analyzing and comparing men and women as owner-managers of family businesses. Gender-related family business research that has been conducted has generally studied the roles and performance of women in family businesses, but there has been little investigation of management characteristic variables. This current study focused on eleven managerial variables identified as important in the family business literature (Sonfield & Lussier, 2004). Space limitations preclude a discussion for each of these research variables. For such a discussion, see Sonfield and Lussier (2004) or contact the authors. Based on the recent literature, which indicates minimal gender differences in small business and family business management, the null hypothesis is utilized for all research variables.

*Hypothesis 1: The use of non-family-member managers will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 2: The use of a team-management decision-making style will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 3: The occurrence of conflict and disagreements within the management team will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 4: The formulation of specific succession plans will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 5: The use of outside advisors and professional services will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 6: The time spent in strategic planning will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 7: The use of sophisticated financial management methods will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 8: The influence of the founder will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 9: The consideration of going public will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 10: The use of a formal versus informal management style will not vary with the proportion of female-to-male owner/managers in a family business.*

*Hypothesis 11: The use of debt versus equity financing will not vary with the proportion of female-to-male owner/managers in a family business.*

### **South American Family Business Context and Literature Review**

Since the 1990s, South America has experienced great economic development, with Argentina and Peru, and several other countries on the continent, having economic growth of over 8% per year, relying heavily on the exporting of goods. While Europe and the United States have been mired in economic stagnation, Latin America has enjoyed a strong recovery, having for the most part sailed through the recession without lasting damage. Boosted by capital inflows, by record prices for commodity exports, by sound policies and by a heady expansion in domestic credit, the region saw economic growth of 6% last year and is on course to notch up close to 5% this year. See Table 1. (CIA, 2012; Economist, 2012).

Table 1

| <b>Country</b>  | <b>Annual economic growth (%)</b> |
|---|-----------------------------------|
|  <a href="#">Peru</a>      | 6.2%                              |
|  <a href="#">Uruguay</a>   | 6.0%                              |
|  <a href="#">Argentina</a> | 8.0%                              |
|  <a href="#">Colombia</a>  | 4.9%                              |
|  <a href="#">Chile</a>     | 6.5%                              |
|  <a href="#">Suriname</a>  | 5.0%                              |
|  <a href="#">Bolivia</a>   | 5.0%                              |
|  <a href="#">Paraguay</a>  | 6.4%                              |
|  <a href="#">Brazil</a>    | 2.8%                              |
|  <a href="#">Guyana</a>    | 5.3%                              |
|  <a href="#">Ecuador</a>   | 5.8%                              |
|  <a href="#">Venezuela</a> | 2.8%                              |

## *Argentina*

Family businesses are a highly important component of worldwide economies, and they are considered to be a determinant of business development and to the contribution of employment generation. However, only minimum research has been conducted on family businesses, and the role it plays in Argentinean business. Niethardt (2007) "...there are no significant statistical samplings that have been conducted on family businesses in the last twenty years..." D'Annunzio and Corral (2007) and Rábago, D'Annunzio, Monserrat and Barberón (2009) concluded that there is a need for further family business research in Argentina.

Argentina's family business are of great socio-economic importance because almost 75 percent of total businesses (1,200,000) are family firms, approximately 50 percent of GNP and 70 percent of employment is contributed to family business, and they control 95 percent of total trade (Kaplun, 2001). Also, 85 percent of family businesses are founded by 26 to 28 year old, 76 percent belong to two or more owners, and only 5 percent belong to women, even though data suggest that small business run by women is quickly increasing, and 50,000 new SMEs are started every year (Mancuso, 2009).

## *Peru*

Peru is a nation with a population size of nearly 29.1 million people (World Bank, 2010), a GNI per capita of almost \$ 5,469 and a GDP nearing \$ 159 billion in 2010 (World Bank, 2010). Over the years, Peru has undergone radical structural reforms and signed many free trade agreements that resulted in tremendous growth across most sectors of their economy (IMF, 2010). Unlike Peru's regional neighbors, the Peruvian economy remained strong throughout the 2008-2009 global economic crisis due to proactive macroeconomic measures (IMF, 2010). According to the IMF (2010), Peru's GDP rose nearly 7 % in 2011 with expectations of continued growth performance well into 2012.

For most Peruvians, free enterprise is a relatively new concept. For decades society was controlled by communism with sporadic periods of democracy intermixed between elected leaders in power (Sahley, 1995). Due to the constant switching between political powers, most of the citizens in Peru experienced periods of isolation, confusion, fear, repression, freedom and execution from their leaders. This resulted in hesitation, distrust, anger and stifled innovation which prevented the entrepreneurial spirit from emerging.

However during the early 1990's, the Peruvian government began to actively encourage SME development through government sponsored small enterprise development programs and economic reforms. These programs were established to encourage citizens towards private enterprise, to help grow the economy and to encourage new venture ownership (Sahley, 1995). As a result, the early 1990's saw a boom of entrepreneurship with many family-owned businesses and new ventures emerging. Throughout the years Peru made numerous reforms, but many are still needed. Reforms that allow entrepreneurs to protection and enforce their contracts, or allow for permits to be dispersed easier or electricity to be turned on will attract more entrepreneurs to start businesses in the country.

Overall, the majority of enterprises in Peru are considered to be micro-enterprises, with many owned and operated as family businesses. Family businesses in Peru are an important part of the economy because of increased privatization. Many families and individuals are pursuing free enterprise to increase their standard of living and obtain financial freedom for their family. However, like most transitioning economies many obstacles exist which prevent Peru as a country from fully prospering as a healthy entrepreneurial economy.

## **Methods**

The research design was survey research using both mail and personal interviews. The previously published Sonfield and Lussier (2004) survey instrument was used to collect the data for the study. The survey questions were published in *Family Business Review*. The objective of this study was not to compare family firms between the two countries, but rather to combine the data to provide a comprehensive and large sample

of family firms that might in turn lead to more general and universal findings than a single-country sample can generate. Thus, the two countries' data were combined into one sample, as Bruton, Ahlstrom, and Obloj (2008) and Lasagni (2012) suggested. The combined sample was also used because of the possibility of obtaining weak and invalid results whenever a large sample is broken down into smaller sub-samples (Lussier, 1997).

### *Sample*

Data was a combination of email and hand delivered. The survey method for data collection in both countries was the same. In Argentina, data collection included phone or email contact in order to schedule a time for a personal interview to complete the questionnaire. However, some family business owners completed the questionnaire and returned it by email. Of the 159 family firms, 102 questionnaires were received, providing a response rate of 64 percent. In Peru, a total of 145 surveys were distributed, 65 e-mailed and 80 were hand delivered. Through extensive follow-up, especially hand delivering questionnaires to those who did not respond to the email, 108 surveys were completed for a response rate of 75 percent. Thus, the combined response rate was around 70 percent.

This is an excellent 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).

### *Variables*

Using regression analysis, there can only be one dependent variable. The dependent variable to test Hypotheses 1-11 was the percentage of female family members involved in the operation of the firm. The independent variables are. (H1) Does the firm have non-family managers?—the percentage of family to non-family managers. Hypotheses 2-10 were interval scales of: “Describes our firm” 7 6 5 4 3 2 1 “Does not describe our firm.” (H2) full family involvement in decisions, (H3) level of family conflict, (H4) formulation of succession plans, (H5) use of outside advisors, (H6) long-range thinking and decision-making, (H7) use of sophisticated financial management tools, (H8) influence of founder, (H9) management style, and (H10) considering going public. (H11) The use of debt or equity financing was a nominal measure of one or the other.

### *Statistical Analysis*

The objective of the study was to determine if there is a correlational relationship between the percentage of women owner-managers in the family business and any of the 11 independent variables. With regression, multiple correlations are run, but there is no implication of any of the variables having a causal effect on another variable (Lussier, 2010). Although regression is commonly used to develop a predictive model, the major focus of the regression analysis in this study was to determine the correlational relationship between the dependent variable, % of woman, and the 11 independent variables. Collinearity diagnostics were also run to ensure that multicollinearity is not problematic in the study.

## **Results and Discussion**

### *Descriptive Statistics*

See Table 1 for the details of the descriptive statistics for the sample, generation, years in business, number of employees, industry (product or service), and ownership (sole proprietor, partnerships, or corporation).

Table 1: Descriptive Statistics

| Variable                | Statistic (N = 210)            |
|-------------------------|--------------------------------|
| Country                 |                                |
| Peru                    | 108 / 51%                      |
| Argentina               | 102 / 49%                      |
| Generation              | (n / % of N)                   |
| 1 <sup>st</sup>         | 70 / 33%                       |
| 2 <sup>nd</sup>         | 106 / 51%                      |
| 3 <sup>rd</sup> or more | 34 / 16%                       |
| Total N                 | 210 / 100%                     |
| Years in business       | (mean / s.d.)<br>20.52 / 18.53 |
| Number of employees     | 17.49 / 31.02                  |
| Industry                | (n / % of N)                   |
| Product                 | 90 / 43%                       |
| Service                 | 120 / 57%                      |
| Ownership               | (n / % of N)                   |
| Sole Proprietor         | 131 / 62%                      |
| Partnership             | 43 / 21%                       |
| Corporation             | 36 / 17%                       |

*Hypotheses Statistics*

See Table 2 for the results of regression analysis. Combined the 11 variables as a model is not significant (ad  $R^2$  .041,  $p = .062$ ). Also, to test the 11 hypotheses based on the relationship between the % of women and each of the 11 independent variables, none has statistically significant correlations. Therefore, the hypotheses are not supported as there were no relationships between the independent variables and the % of women.

Table 2: Regression Analysis

*Regression Model*

| R    | R <sup>2</sup> | Adj. R <sup>2</sup> | F     | Sig  |
|------|----------------|---------------------|-------|------|
| .310 | .096           | .041                | 1.737 | .062 |

*Correlation Coefficients Dependent Variable*

Percentage of Women Family Members Involved in the Business

| Independent Variables            | Beta  | Sig  |
|----------------------------------|-------|------|
| H1. % Non-family Management      | -.062 | .392 |
| H2. Family Decision Making Style | .118  | .095 |
| H3. Family Conflict              | .066  | .356 |
| H4. Succession Planning          | .114  | .129 |
| H5. Use Outside Advisors         | -.016 | .853 |
| H6. Long-term Planning           | .072  | .365 |
| H7. Financial Mgt Tools          | -.102 | .250 |
| H8. Founder Influence            | .020  | .792 |
| H9. Go Public                    | -.004 | .957 |
| H10. Management Style            | .093  | .208 |
| H11. Debt vs. Equity Finance     | -.068 | .353 |
| (Constant)                       |       | .073 |

### *Multicollinearity Statistics*

All 11 independent variables had a tolerance or greater than .2, with the lowest being .598. All 11 independent variables had a VIF of less than .4, with the highest being 1.684. Therefore, multicollinearity should not be problematic within the variables (Lussier, 2010).

The results of this analysis largely support the trends in recent family business and entrepreneurial research which indicate few differences between male and female owner/managers. Thus this study makes an important theoretical contribution to our understanding of family business, as it clarifies and modifies our comprehension of gender issues in family business by adding support to certain aspects of the prior literature while diminishing our reliance on other aspects. Family business theory is improved when the prior theoretical consensus is improved or modified through additional findings (Reay & Whetten, 2011).

There are also “Theory into Practice” implications to these findings. As our understanding of gender issues in family business continues to solidify through studies such as this one, family business owner/managers, and advisors to such businesses, can better recognize whether any of their managerial activities might be impacted by the owner/managers’ gender. For example, the findings of this study would imply to an owner/manager that most of his or her managerial activities are unaffected by his or her gender and that the managerial focus should simply be on performing as effectively as possible.

### **Conclusion**

Because results of prior research studies have been mixed and clear answers to gender-based management similarities and differences in family firms remain elusive, this study provides a theoretical contribution to our understanding of gender issues in family business management by largely supporting the trend in consensus that there are minimal differences between the behavior of male and female family business owner/managers.

### **References**

- Astrachan, J. (2002). Editor’s notes. *Family Business Review*, 15(1), v.
- Astrachan, J. & Shanker, M. (2003). Family businesses’ contribution to the US economy: A closer look. *Family Business Review*, 16(3), 211-219.
- Baines, S. & Wheelock, J. (2000). Work and employment in small businesses: Perpetuating and challenging gender traditions. *Gender, Work and Organization*, 7(1), 45-56.
- Barbieri, E. (1997). *A Batalha das Herdeiras na Empresa familiar*. Porto Alegre, Brazil: Sagra-D.C. Luzzatto Editores.
- Bellet, W., Dunn, B., Heck, R., Parady, P., Powell, J., & Upton, N. (1995) ‘*Family business as a field of study*’, at <http://www.fambiz.com/Orgs/Cornell/articles/real/ifbpa.cfm>
- Bennett, R. & Dann, S. (2000). The changing experience of Australian female entrepreneurs. *Gender, Work and Organization*, 7(2), 75-83.
- Birley, S. (1989). Female entrepreneurs: Are they really different? *Journal of Small Business Management*, 27(1), 32-37.
- Birley, S. (1997). *The Family and the Business*. London: Grant Thornton.
- Bowman-Upton, N., & Heck, R.K.Z (1996). The family dimension of Entrepreneurship, in D.L. Sexton (Ed.), *The State of the Art of Entrepreneurship*. Chicago: Upstart.
- Brewer, N., Mitchell, P. & Weber, N. (2002). Gender role, organizational status, and conflict management styles. *International Journal of Conflict Management*, 13(1), 78-94.
- Bruton, G. D., Ahlstrom, D. & Obloj, K., 2008. Entrepreneurship in emerging economies: where are we and where should the research go in the future. *Entrepreneurship Theory and Practice* 32(1): 1-14.

- Cappuyns, K. (2007). Women behind the scenes in family businesses. *Electronic Journal of Family Business Studies*, 1(1), 38-61.
- Carsrud, A. (1994). *Lessons Learned in Creating a Family Business Program*. University of California, Los Angeles. Unpublished manuscript.
- Carsrud, A., Gaglio, C., & Olm, K. (1986). Entrepreneurs, mentors, networks, and successful new venture development: An exploratory study," in *Frontiers of Entrepreneurial Research*, Ed. Ronstadt, R., Hornaday, J., Peterson, R. & Vesper, K. Wellesley, MA: Babson College, 199-235.
- Carter, N., Williams, M., & Reynolds, P. (1997). Discontinuance among new firms in retail: The influence of initial resources, strategy, and gender," *Journal of Business Venturing*, 12(2), 125-145.
- Chaganti, R., & Parasuraman, S. (1996). A study of the impacts of gender on business performance and management patterns in small business. *Entrepreneurship Theory and Practice*, 21(2), 73-75.
- Chaganti, R., & Schneer, J.A. (1994). A study of the impact of owner's mode of entry on venture performance and management patterns," *Journal of Business Venturing*, 9(3), 243-261.
- CIA (2012). www.cia.gov. Accessed May 22.
- Cole, P. (1997). Women in family business. *Family Business Review*, 10(4), 353-371.
- Collins-Dodd, C., Gordon, I., & Smart, C. (2004). Further evidence on the role of gender in financial performance. *Journal of Small Business Management*, 42(4), 395-417.
- D'Annunzio, M.C. y Rábago, P. L. (2007). Entrepreneurship, instituciones y turismo: Una combinación para la generación de entornos innovadores, XII Reunión Anual RedPyMes. Campinas. Brasil.
- Danes, S., Haberman, H. & McTavish, D. (2005). Gendered discourse about family business. *Family Relations*, 54(1), 116-130.
- Economist (2012). www.economist.com. Accessed May 22.
- Fasci, M., & Valdez, J. (1998). A performance contrast of male- and female-owned Small Accounting Practices," *Journal of Small Business Management* 36(3), 1-7.
- Gatewood, E., Carter, N., Brush, C., Greene, P. & Hart, M. (2003). *Women entrepreneurs, their ventures, and the venture capital industry: An annotated bibliography*. Stockholm: ESBRI.
- Gill, R. (2007). Empowerment, constraint, and the entrepreneurial self: A study of white women entrepreneurs. *Journal of Applied Communication Research*, 35(3), 268- 293.
- Gundry, L., & Welsch, H. (1994). Differences in familial influence among women-owned businesses. *Family Business Review*, 7(3), 273-286.
- Gupta, V., Turban, D., Wasti, S. & Sikdar, A. (2009). The role of gender stereotypes in perceptions of entrepreneurs and intentions to become an entrepreneur. *Entrepreneurship Theory and Practice*, 33(2), 397-417..
- Hughes, K. (2003). Pushed or pulled? Women's entry into self-employment and small business ownership. *Gender, Work and Organization*, 10(4), 433-454.
- Hyde, J. (1990). Meta-analysis and the psychology of gender differences. *Signs: Journal of Women in Culture and Society*, 16, 55-73.
- IMF (2010). International Monetary Fund. www.imf.org. Accessed May 22, 2012.
- Jome, L, Donahue, M. & Siegel, L. (2006). Working in the unchartered technology frontier: Characteristics of women web entrepreneurs. *Journal of Business and Psychology*, 21(1), 127-147.
- Kaplun C. 2001. Continuidad y cambio: la familia en la empresa, Revista Mercado, Editorial Coyuntura, available online <http://www.mercado.com.ar/nota.php?id=36592> Accesed July 18th, 2010
- Kellermanns, F.W., Eddleston, K., Barnett, T. & Pearson, A. (2008). An exploratory study of family member characteristics and involvement: Effects on entrepreneurial behavior in the family firm. *Family Business Review*, 21(1), 1-14.
- Kets de Vries, M. (1993). The dynamics of family controlled firms: The good and bad news. *Organizational Dynamics*, 21(3), 59-71.

- Kim, G. (2006). Do equally owned small businesses have equal access to credit? *Small Business Economics*, 27(4-5), 369-386.
- Lasagni, A. (2012). How can external relationships enhance innovation in SMEs? New evidence for Europe. *Journal of Small Business Management*, 50(2), 310-339.
- Lewis, P. (2006). The quest for invisibility: Female entrepreneurs and the masculine norm of entrepreneurship. *Gender, Work and Organization*, 13(5), 453-469.
- Light, I. (2007). Women's economic niches and earnings inferiority: The view from the ethnic economy. *Journal of Ethnic and Migration Studies*, 33(4), 541-557.
- Litz, R.A. (1995). The family business: Toward definitional clarity. *Family Business Review*, 8(2), 71-81.
- Lussier, R. N. (1997). Predicting entrepreneurial success versus failure: a comparison of multi and single-industry techniques, *Academy of Entrepreneurship Journal* 3(1): 89-101.
- Lussier, R.N. (2011). *Research Methods and Statistics for Business* (Long Grove, IL: Waveland).
- Mancuso, E. 2009. La empresa familiar emprendedora. Universidad de Palermo GSB. Conferencia Endeavor.
- Marlow, S. & Patton, D. (2005). All credit to men? Entrepreneurship, finance, and gender. *Entrepreneurship Theory and Practice*, 29(6), 717-735.
- McCann, J., Leon-Guerrero, A., & Haley, J. (1997). *Family Business with a Capital "B": Characteristics, Priorities and Performance of Family Firms*. Paper presented at the Academy of Management Meeting, Boston, MA.
- Minniti, M., & Nardone, C. (2007). Being in someone else's shoes: the role of gender in nascent entrepreneurship. *Small Business Economics*, 28(2-3), 223-238.
- Morck, R. & Yeung, B. (2003). Agency problems in large family business groups. *Entrepreneurship: Theory and Practice*, 27,(4), 367-382.
- Morris, M.H., Williams, R.O., Allen, J.A., & Avila, R.A. (1997). Correlates of success in family business transitions. *Journal of Business Venturing*, 12(5), 385-401.
- Niethardt, E 2007. La empresa familiar convive con la globalización, published online available at <http://www.niethardt.com/publicaciones.php> , accessed July 18, 2010.
- Pieper, T. & Klein, S. (2007). The bulleye: A systems approach to modeling family firms. *Family Business Review*, 20(4), 301-319.
- Powell, M., & Ansic, D. (1997). Gender differences in risk behavior in financial decision-making: An experimental analysis. *Journal of Economic Psychology*, 18(6), 605-628.
- Poza, E. (2007). *Family Business*. Mason: OH, South-Western/Cengage.
- Pyromalis, V., Kalkanteras, T., Rogdaki, M. & Sigalas, G. (2004). An integrated framework for testing the success of the family business succession process according to gender specificity. *Proceeding of the Academy of Family Business*, 2(2), 1-6.
- Rábago, P.L., D'Annunzio M.C.; Monserrat S.y Barberón S. 2009. Empresas familiares: Caracterización e identificación de problemáticas específicas, VI Encuentro de Centros de Investigación, Tandil, Universidad Nacional del Centro de la Provincia de Buenos Aires. ISBN N° 978-950-658-235-7.
- Reay, T., & Whetten, D. (2011). What constitutes a theoretical contribution in family business? *Family Business Review*, 24(2), 105-110.
- Rottenberg, D., ed. (2002). The oldest family businesses. *Family Business Magazine*, Winter.
- Rowe, B., & Hong, G. (2000). The role of wives in family businesses: The paid and unpaid work of women. *Family Business Review*, 13(1), 1-13.
- Shim, S., & Eastlick, M. (1998). Characteristics of Hispanic female business owners: An exploratory study. *Journal of Small Business Management*, 36(3), 18-34.
- Smith, M. (2007). Women take charge of more family companies but face added hurdles. *Family Business*. Caledonian Family Business Centre, UK (Autumn 2007). 1-2.

- Sonfield, M. & Lussier, R. (2004). First, second and third-generation family firms: A comparison. *Family Business Review*, 17(3), 189-202.
- Sonfield, M., Lussier, R. Corman, J. & McKinney, M. (2001). Gender comparisons in strategic decision-making: An empirical analysis of the Entrepreneurial Strategy Matrix. *Journal of Small Business Management*, 39(2), 55-63.
- Verheul, I, Stel, A. & Thurik, R. (2006). Explaining female and male entrepreneurship at the country level. *Entrepreneurship and Regional Development*, 18(2), 151-183.
- Wagner, J. (2007). What a difference a Y makes – Female and male nascent entrepreneurs in Germany. *Small Business Economics*, 28(1), 1-21.
- Watson, J. (2002). Comparing the performance of male- and female-controlled businesses: Relating outputs to inputs. *Entrepreneurship Theory and Practice*, 26(3), 91-100.
- Weller, S. & Bernasek, A. (2001). Dodging the glass ceiling? Networks and the new wave of women entrepreneurs. *Social Science Journal*, 38(1), 85-103.
- Westhead, P., & Cowling, M. (1998). Family firm research: The need for a methodological rethink. *Entrepreneurship Theory and Practice*, 23(1), 31-56.
- World Bank (2010). [www.worldbank.org](http://www.worldbank.org). Accessed May 22, 2012.

## Talent Retention and Organizational Effectiveness Through Personal Values Fulfillment

Ilene Ringler, Ilene Ringler Associates

The talent wars are here. Even in an economic downturn, retaining talent should be a top priority for all business owners. “CEOs of the nation's fastest growing companies overwhelmingly cite retention of key workers as the most critical factor to plan for in the next year ahead (Pricewaterhouse Coopers, 2004)” (Frank, Finnegan, Taylor & Talentkeepers, 2004, p. 13). Martin in the 2012 article C-suite beware: This could be the year of the employee backlash, tells us that according to the Labor department, there has been an uptick in the number of Americans quitting their job since the 2007, the year the recession began. For small business owners, who represent over 99% of all firms in the United States and over the last 15 years have generated 64% of net new jobs (SBA, 2009), talent retention will be a key factor in continued growth and success.

Job satisfaction can be a key strategy for employee retention and increased organizational effectiveness. Diskienė, and Goštautas support this viewpoint “It should be noted that job satisfaction is a key factor to maintaining high performance and efficient service, which will directly increase the productivity of the organization (Gunlu et al., 2009)” (2010, p. 296). A key component to job satisfaction is the opportunity for employees to find some level of fulfillment of their personal values in daily job activities. Braddy, Meade, and Kroustalis (2006) cited Kristoff (1996) in asserting the applicants are attracted to work environments that are compatible with their values. A value based career development and employee satisfaction program developed by Blessing White, *Managing Personal Growth*, has been used in a business setting for a number of years. Blessing White has conducted this program worldwide for over 30 years, supporting the hypothesis that people want to understand the link that exists for them personally in satisfying personal values in all aspects of life. The program materials stated, “A firm values framework gives you a sharper sense of self-identity (you know who you are), a greater self-assurance (you know where you stand), and a clearer sense of self direction (you know what you want)” (2003, p. 3). Researchers (Almeida & Pinto, 2003; Argandona, 2003; Brown & Crace, 1996, 1999, 2002; Connor & Becker, 2003; McLelland, 2000; Mosconi & Emmett, 2003) believed people of all ages use values as a basis for both personal and professional life choices and support the viewpoint personal values do have an important role in determining actions and goal setting. What are values? Gilmore's 2008 interview with Dr. Ringler states “Ringler defines it as an intangible feeling, a personal preference that guides every decision an individual makes” (§ 5). Schwartz and Bilsky (1987) research revealed that there are many common features about the definition of values, “According to the literature, values are (a) concepts or beliefs, (b) about desirable end states or behaviors, (c) that transcend specific situations, (d) guide selection or evaluation of behavior and events, and (e) are ordered by relative importance” (p. 551). Schwartz (1994) added values serve as guiding principles in life.

Organizations that understand the power of values are on the rise. Posner and Schmidt (1992) stated, “Interest in managerial values is stronger today as the nation's businesses have recognized the importance of corporate culture and how shared values (alignment between personal and organizational values) make a difference” (p. 80). The conclusions of Hyde and Williamson's 2000 study in the Solicitor's Office of HM Customs & Excise support Posner and Schmidt. “First, people want to feel that the organisation they work for is in tune with their values. Secondly, value congruence is associated with higher satisfaction with the organisation as a place to work and with the work itself” (p. 10).

Employee values satisfaction in their job role is important to retention and trust building in the recovering economy. The Maritz Research Hospitality Group 2011 Employee Engagement Poll (2011) cites Garlick “It

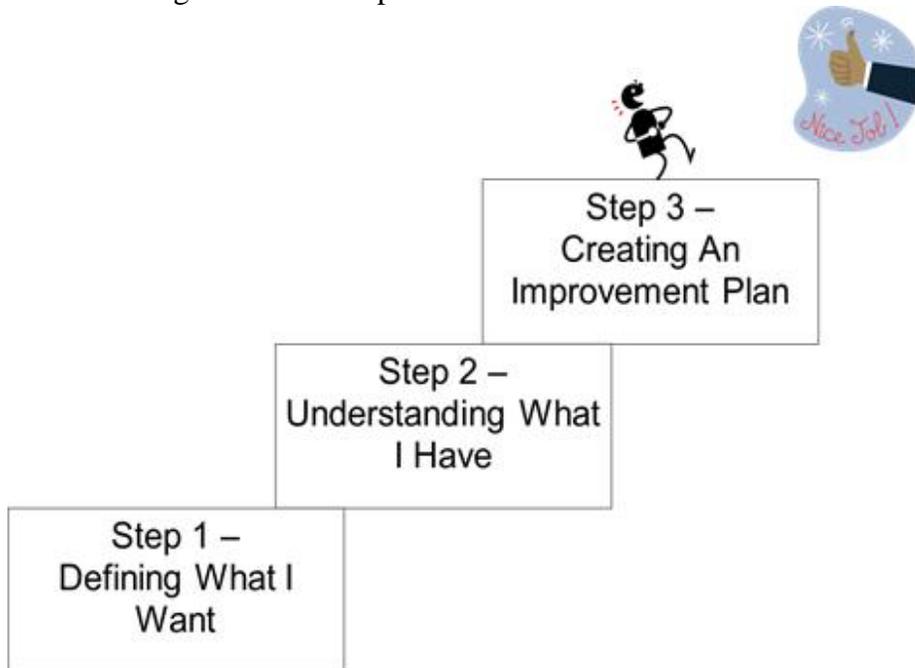
is critically important for employers to connect with employees on a value-level to create a positive working experience, improve employee retention rates and increase trust in management” (p. 2). MacIntosh and Walker (2012) support the Maritz study, “Research has shown that job satisfaction is one of the most powerful predictors of why people chose to leave their organization (Chelladurai & Ogasawara, 2003)” (p, 123). If values do drive choices, a position supported by Brown and Crace (1996), “Values with high priorities are the most important determinants of choices made, providing that the individuals have more than one alternative available which will satisfy their values” (§ 6), then creating an easy to implement process for employers to help employees increase satisfaction with their values on the job, can yield higher productivity greater organizational effectiveness. For small business owners who are often resource constrained and need to achieve the highest degree of productivity understanding the importance of employee satisfaction based on values fulfillment and focusing on keeping employees happy will increase the chances of growth and success. Smith, (2012) cites Miller (2012), who supports this view. “From both ends of the spectrum, an individual’s happiness at work will create happiness throughout all areas of their life, and likewise a company with a happy, motivated workforce will see exceptional results in its products and services” (§ 14).

The employer-employee workplace partnership dictates that both sides have a role to play in employee satisfaction. Employers need to provide a venue for employees to achieve greater satisfaction with work roles and tasks to ensure retention and high productivity. Employees will need to assume a self-leadership role in defining what will increase their satisfaction and provide feedback to employers in a way that benefits both employee and business. Houghton and Yoho (2005) cited Manz (1986), Manz & Neck (2004), and Manz & Sims (2001) in stating, “Self-leadership is defined as a systematic set of strategies through which individuals influence themselves toward higher levels of performance and effectiveness” (p. 65). This paper will present a cost effective and easy to administer 3 step process (Figure 1) that I have developed over the course of many years of research and practical application for employees to assess their personal values and use this information to create a job satisfaction profile. Business leaders and owners can work with employees who have created this profile to increase job satisfaction, productivity and retention.

### **Step 1- Defining What I Want**

Why is Step 1 so essential to the success of this process? Having a clear picture of what is important is foundational to creating a realistic and fact based action plan for improvement. In many cases people start with Step 2 and or even worse go right to Step 3, are dissatisfied with the end results and do not know why. For the process to work optimally, employees must spend time assessing what work activities give them satisfaction “So the first step down the values-led track is to help staff clarify their personal values and then look at those in the context of their own work role and relationships” (“Work – a,” 2006, § 9). There are different methods to achieving this first step and the two which I have found to be most successful are discussed below.

One option is to encourage employees to work with a standardized instrument for defining values. This is a deductive reasoning based approach to Step 1. Trochim (2006) tells us that “Deductive reasoning works from the more general to the more specific. Sometimes this is informally called a ‘top-down’ approach” (§ 1). The standardized instrument is a good first step to help employees put a name or title to those things which give them satisfaction. There are many values based assessment instruments and tools that can be found both in books and on the web, many free or low cost, so the choice of instrument can be left to the employee or a standard one selected by the employer to achieve some degree of consistency. The advantage to this deductive method is that it can be completed quickly and produce a results that can be easily seen.



In my work with employees and companies on this first step, I find that there are many who have never taken the time to complete this important task and the results can sometimes be surprising to them. One reason for this is may be societal bias, or other factors influencing choice. Weiler and Schoonover (2001) advise that “When people prioritize their life values we suggest they sort out any voices they might carry in their heads from other people telling them what they should value” (§ 12). Filtering out bias is not an easy task, so if employers choose this method as the primary way of helping employees discover their values, then employees should be encouraged to reflect on this list over the course of time and review it against the life activities that actually give them satisfaction.

An alternative method of discovering values can be based on the inductive reasoning approach. Trochim (2006) tells us that “Inductive reasoning works the other way, moving from specific observations to broader generalizations and theories. Informally, we sometimes call this a ‘bottom up’ approach” (§ 2). In this approach employees can keep a record of events and tasks that give them the greatest satisfaction and then analyze those for trends. Gilmore (2008) cites Ringler, who states “When you are satisfying your personal values, those things are usually seen as strengths or talents on the job,” (§ 9). I recommend that the employee keep this list both at home and at work to see where they are getting the most satisfaction. It may be helpful to encourage employees to create an easy to use form to capture this information or provide support from your human resources department if you have one. One method that I have found helpful is called the STAR process, Situation/Task, Action, Result, commonly used in evaluating a candidate’s fit for a particular job (Uddin, Tanchi & Alam, 2012). As employees collect these examples, they can then conduct a trend analysis to see where their values are satisfied. The results of this analysis will become very important when employees continue working through the process. The advantage to inductive method is that employees gather the information over time and analyze later, possibly reducing the bias that may be inherent in the deductive process mentioned above. The possible disadvantage to this method is that, without additional guidance and structure, employees may have a difficult time analyzing the data they have gathered. One possible solution is to combine the approaches and let the employee use a standardized instrument to provide more structure to the data analysis.

To complete Step 1 and prepare for Step 2, employees will be using completing the final tasks listed below. An example follows.

- Selecting their top 5 or primary values (Crace, 2006), or ones that are of critical importance to satisfaction in life at this current time.
- Creating a personal values statement or credo. Williams (n.d.) cites Kouzes and Posner (1993) in supporting the creation of this credo so that it can be shared with others, or used as a tool to help clarify your values choices.
- Developing a first draft job profile, or a future state that will represent maximum satisfaction with their values and by implication, their talents or strengths. Gilmore (2008) cites Ringler who states “Looking at that profile, [employees] can ask [themselves] the question: If I had job nirvana, if I could be maximally satisfied with these values on the job, what would that look like?” (¶ 12). Kerns (2010) supports this approach stating that “This step helps to focus and further optimize the individual’s work in managing his or her strengths” (p. 73).

### Sample Output for Step 1

*Values - Creativity, Inner Harmony, Independence, Change and Variety, Knowledge*

Statement

- My creativity is one of my most treasured possessions and I look for the opportunity to be creative in every facet of my life.
- Inner harmony is important to me because I feel that spending time with friends and family restores my balance in life.
- I need a great degree of independence in both my professional and personal life which helps me satisfy my need for change and promotes my desire for continuous learning.

Job Profile

- Lots of chance to create new things
- Little direct supervision
- Lots of different things to do
- Good Work/Family Life Balance

To summarize this first and most critical step in the process, the employee has completed an initial analysis of his/her most important values, selected the top 5 or primary values and used this information to create a credo and job nirvana profile. As we explore Step 2, the importance of this foundational work becomes evident.

### **Step 2 –Understanding What I Have**

Why is Step 2 important to the success of this process? Step 2 builds on the foundational work completed in Step 1 provides the answers to these questions:

1. What areas in my current state are satisfying me?
2. What areas in my current state are dissatisfiers for me?
3. What do I need to do next to create a higher level of satisfaction?

The completion of this step will take some time as the employee works his/her way through enough life and work events to be sure of the results. A typical timeframe to complete this step would be two work weeks with examples gathered from all aspects of life. The STAR process described in Step 1 will also be valuable here so that they employee can see what parts of the daily work and home life bring satisfaction and which ones don’t. During this part of the process, it is recommended that the employee review these examples against the initial selection of the primary values to see if there are any changes that need to be made. In my experience working through this process with employees and those individuals seeking a career change, there

are many times when the initial selection of primary values undergoes some revision during this step. The collection of examples may uncover information that was not apparent due to bias or other factors. If this happens, it is a good thing, as greater clarity can be achieved for Step 3 which is action planning.

Once this initial data analysis is done, the employee will need to determine what to do next in preparation for Step 3 - Creating an Improvement Plan. Here are some questions that may provide good thoughts for next steps:

- Do I have enough information to complete my picture?
- Which of these factors is a Show Stopper?
- What are the next steps I should take to increase my confidence with this information?

The final task in this step is to have the employee create some next ideas for improvement that will be a good balance of a win for the employee and a win for the organization. The sample below shows ideas to increase satisfaction are based in both + and – areas. Increasing satisfaction with areas that are already deemed positive will yield greater results than primarily focusing on those areas of dissatisfaction. Buckingham and Clifton (2001) in their groundbreaking book, *Now Discover Your Strengths* support this focus, “ [y]ou should focus your training time and money on educating him about his strengths and figuring out how to build on these strengths rather than trying to plug his ‘skill gaps.’ ” (p. 217). While the advantages of this approach may seem evident, in practice, I have had difficulty convincing organizations and individuals of the worth of working this way. For those who do try it, the results convince them of the superiority of this method.

To summarize our work so far, Step 1- Defining What I Want, has employees engaged identifying and selecting primary values, creating a values statement and job nirvana profile. Step 2- Understanding What I Have, continues the values journey for the employee by assessing the current state of satisfaction and creating an initial draft of ideas for increased satisfaction. As we move onto Step 3 -Creating An Improvement Plan, we will explore the role of the company culture in the ultimate success of this process.

### Sample Output for Step 2

#### *Values - Creativity, Inner Harmony, Independence, Change and Variety, Knowledge*

| My Needs  | Current Role   | +/- | Ways To Increase My Satisfaction                                  | Benefit to Me                                     | Benefit to the Organization  |
|---|--|-----|---|---|--|
| Autonomy/Independence/ Little direct supervision                      | Makes own schedule and can work from home if needed          | +   | 4 day work week when needed with longer work day                  | Can be at my kids school events                   | More focus on priority tasks to thank the organization for the flexibility                             |
|   | Hands on Boss  | -   | Meet with my manager to determine what I need to do to gain trust | More freedom to get work done in a timely fashion | Reduced roadblocks to getting work done. Increased trust with manager allows for greater productivity  |
| Knowledge/Intellectual Challenge/ Lots of chance to create new things | Ongoing new opportunities to learn new things and apply them | +   | Ask for a project that would “stretch” my mind                    | Keeps my mind fresh and active                    | Learning and growing always adds value to the organization and can result in new products and services |
|   | Working with “challenging” people                            | +   | Ask for a mentorship with one of the                              | Growth and learning                               | Building relationships across the organization   |

| My Needs | Current Role | +/- | Ways To Increase My Satisfaction | Benefit to Me | Benefit to the Organization             |
|----------|--------------|-----|----------------------------------|---------------|---|
|          |              |     | “challenging” people             |               | increases success and work productivity |

### Step 3 -Creating An Improvement Plan

There are many challenges associated with leading an organization where employees come to work with different requirements for fulfilling their values. This is not to say that the employees values are different than those of the organization, they may just need different methods of satisfying those values on the job. These challenges rise as the company grows from a small size where everyone knows each other to one that exists in multiple time zones and locations. The temptation is to create guidelines and rules that make managing consistent and standardized. Buckingham and Clifton (2001) present a different view by stating “The great organization must not only accommodate the fact that each employee is different, *it must capitalize on these differences*” (p. 5).

To implement this process effectively, the culture of the organization must truly encourage employees to feel comfortable bringing suggestions for improved job satisfaction and provide tools and processes that facilitate the change. When working with companies considering this process, one key fear that I hear often is that employees will ask for large or unreasonable changes, i.e., salary increases, promotions, non-standard work schedules that interfere with the daily operations of the organization. In my experience, this has not been the case. More often, employees ask for small changes which can include requests for special projects and more involvement in helping make the organization successful and profitable.

There are a few ways that Step 3 can be implemented easily. Here are a few of the more common ones that have been successful. Encourage employees to schedule structured meetings. Using the sample outputs seen in Step 2 can serve as a foundation for these meetings, making them simple and easy to work with. Gilmore (2008) states that Ringler recommends employees approach the meeting with an agenda which includes discussing their values, how they are being satisfied on the job and some suggestions for how to increase satisfaction which would increase their productivity. If an organization already has a standard performance management process which includes ongoing meetings, weekly, monthly or quarterly, conversations on employee satisfaction and suggestions for improvement should be integrated into these meetings as a regular agenda item. It is not recommended to wait until the annual appraisal meeting to discuss these items.

Once the employee and manager have discussed the suggestions for improvement and come to consensus on changes, then a tracking process needs to be put into place to be sure the changes are occurring and that they do result in increased satisfaction and productivity for the employee.

#### *Implementation Recommendations*

In my work with companies who choose to embrace this process, I have discovered that company culture is often the determining factor in final implementation. In this final section I will be discussing various options so that the company leadership can select the elements that best fit its needs.

For companies who have a deeply embedded collaborative culture then a team approach is often optimal. For example Step 1 can be completed in a workshop format, at least to create a first draft of the primary values. Williams, (n.d.) supports this approach but cautions that “Participants should approach the activity as a learning exercise and not as a performance or competition. No one should be made to feel self-conscious about having difficulty generating an elaborate or altruistic set of values” (¶ 14). Organizations who are team based can choose to encourage employees to complete Steps 1 & 2 in a group format or work with a peer coach, “Peer-to-peer coaching is fun, because it involves learning and solving real problems; it's free; and, I've found, just about anyone can do it” (Friedman, 2010, ¶ 6). Step 3 should be completed with the manager

in a private one-on-one format to build stronger relationships and increase trust.

If the organization is built on a more traditional culture of interaction between manager and employee, this process may take on a different look, but will be just as successful if the organization is committed to supporting it. To complete Steps 1 and 2, the employee can have an initial meeting with the manager who assumes the role of mentor in supporting employee efforts. This mentor vs. manager distinction is important as the employee will be taking a self-leadership role as described earlier in completing the work. The mentor or, as the Online Etymology Dictionary states, “wise advisor” (n.d.) will be there to support these efforts so the employee can take charge of his/her own satisfaction improvement plan.

### Final Thoughts

This process is very powerful and can have an extraordinary effect on employee retention and organizational performance regardless of the organizations size or age. If your organization chooses to embark on an plan with this method, management must be prepared to visibly support it, or it will backfire, possibly resulting in higher turnover and the loss of employee confidence. Consideration should be given to training for both management and employees so everyone understands their roles and responsibilities in this important change. One important final thought about integrating a values satisfaction process into the organizational culture, it cannot be a one-time effort. There are research findings that indicate the primary values endure throughout life, with small changes. (Aliotta, 2002; Hitlin & Piliavin, 2004; Meglino & Ravlin, 1998; Piirto, 2005; Rokeach, 1968-1969). There is an alternative school of thought that suggests values do change according to factors such as changes in societal values, attaining new knowledge about self or organizations (Almeida & Pinto, 2003; Argandona, 2003; Connor & Becker, 2003; Hague, 1993; MPG The Success Connection Workbook, 2003). Both schools of thought do imply that engaging employees in values satisfaction exercises can prove beneficial to the organization, the employee and ultimately the customer. Argandona (2003) suggested that the process of discussing and defining values must be repeated regularly or when major internal or external changes take place. In my work with organizations who embrace this concept, there is a dedication to ensuring employee values are satisfied on a continuous basis, even for those small changes in primary values, which encourages continuous satisfaction growth and commitment to the growth of the organization.

### References

- Almeida, L. & Pinto, H. R. (2003). Life values inventory (LVI): *Portuguese Adaptation Studies*. 29-35. Retrieved from <http://www.contactpoint.ca/cjcd/v3-n1/article4.pdf>.
- Argandona, A. (2003, June). Fostering values in organizations. *Journal of Business Ethics*, 45(1), 15-28. Retrieved from Ebscohost database.
- Braddy, P. W., Meade, A. W., & Kroustalis, C. M. (2006, Summer). Organizational recruitment website effects on perceptions of organizational culture. *Journal of Business & Psychology*
- Brown, D., & Crace, K. R. (1996, 2002). Life values inventory facilitators guide. *Life-values.com*. Retrieved <http://www.life-values.com/pubs.html>.
- Brown, D., & Crace, K.R. (1996, March). Values in life role choices and outcomes: a conceptual model. *Career Development Quarterly*, 44(3). Retrieved from Ebscohost database.
- Buckingham, B., & Clifton, D. O. Phd. (2001). *Now, discover your strengths*. New York, NY: The Free Press.
- Connor, P. E., & Becker, B. W. (2003, Spring). Personal value systems and decision-making styles of public managers *Public Personnel Management*, 32(1), 155-171. from EBSCOhost database.
- Crace, R.K. (2006), *The praestareproject*. Retrieved from <http://lifevaluesinventory.com/praestareproject/index.aspx>

- Frank, F. D., & Finnegan, R. P. Taylor, C.R. & Talentkeepers. (2004). The race for talent: Retaining and engaging workers in the 21st century. *Human Resource Planning*, 27(3), 12-25.
- Friedman, S. (2010, February 10). [Web log message]. Retrieved from [http://blogs.hbr.org/cs/2010/02/cultivate\\_your\\_coaching\\_network.html](http://blogs.hbr.org/cs/2010/02/cultivate_your_coaching_network.html).
- Gilmore, A. (2008, January). Getting personal (values). *Talent management*, Retrieved from [http://talentmgt.com/articles/view/getting\\_personal\\_\(values\)](http://talentmgt.com/articles/view/getting_personal_(values)).
- Hague, W. J. (1993). Toward a systemic explanation of valuing. *Counseling and Values*, 38(1). Retrieved from EBSCOhost database.
- Hitlin, S., & Piliavin, J. A. (2004). Values: Reviving a dormant concept. *Annual Review of Sociology*, 30, 359-393. Retrieved from ProQuest database.
- Houghton, D., & Yoho, S. (2005, Summer). Toward a contingency model of leadership and psychological empowerment: When should self-leadership be encouraged? *Journal of Leadership & Organizational Studies*, 11(4), 65-83. Retrieved from EBSCOhost database.
- Hyde, P., & Williamson, B. (2000). The importance of organisational values part 1: Is your organisation value congruent?. Retrieved from <http://www.peterhyde.co.uk/documents/Part 1 - Is your organisation value congruent.pdf>
- Kerns, C. (2010, Spring). Managing Your Strengths: An Approach to Boost Happy High-Performance,” Kravis Leadership Institute, *Leadership Review*, 10, pp. 68-81.
- MacIntosh, E., & Walker, M. (2012). Chronicling the transient nature of fitness employees: An organizational culture perspective. *Journal of Sports Management*, 26, 113-126.
- Maritz Research. (2011, June). *Maritz research hospitality group 2011 employee engagement poll*. Retrieved from [http://www.maritz.com/~media/Files/MaritzDotCom/White%20Papers/ExecutiveSummary\\_Research.ashx](http://www.maritz.com/~media/Files/MaritzDotCom/White%20Papers/ExecutiveSummary_Research.ashx).
- Martin, J. (2012, January 6). C-suite beware: This could be the year of the employee backlash. *ForbesWoman*, Retrieved from <http://www.forbes.com/sites/work-in-progress/2012/01/06/c-suite-might-wake-up-to-smell-their-employees-burning-in-wake-of-new-jobs-data/>
- McLelland, D.C. (2000). *Human motivation*. Cambridge, U.K.: Cambridge University Press.
- Meglino, B. M., & Ravlin, E. C. (1998). Individual Values in Organizations: Concepts, Controversies, and Research. *Journal of Management*; 24(3). 351-389. Retrieved from Ebscohost database.
- Mentor. (n.d.). *Online Etymology Dictionary*. Retrieved from Dictionary.com website: <http://dictionary.reference.com/browse/MENTOR>
- Mosconi, J., & Emmett, J. (2003, December). Effects of a values clarification curriculum on high school students' definition of success. *Professional School Counseling*, 7(2), 68-78. Retrieved from Ebscohost database.
- MPG The Success Connection Workbook. (2003, October). *Princeton, NJ: Blessing/White*.
- U.S. Small Business Administration, SBA Office of Advocacy (September, 2009). Frequently Asked Questions. Retrieved from <http://www.sba.gov/advo/stats/sbfaq.pdf>.
- MPG The Success Connection Workbook. (2003, October). *Princeton, NJ: Blessing/White*.
- Piirto, J. (2005, Winter/Spring). I Live in My Own Bubble: The Values of Talented Adolescents. *Journal of Secondary Gifted Education*, 16 (2/3). 106-118. Retrieved from EBSCOhost database.
- Posner, B. Z., & Schmidt, W. H. (1992, Spring). Values and the american manager: An update updated. *California Management Review*, 34(3), 80-95. Retrieved from EBSCOhost database
- Rokeach, M. (1968-1969, Winter). The role of values in public opinion research. *Public Opinion Quarterly*, 32(4), 547-559. Retrieved from EBSCOhost database.
- Schwartz, S. H. (1994, Winter). Are there universal aspects in the structure and contents of human values?. *Journal of Social Issues*, 50(4), 19-45. Retrieved from EBSCOhost database.
- Schwartz, S., & Bilsky, W. (1987, September). Toward a universal psychological structure of human values.

- Journal of Personality & Social Psychology*, 53(3), 550-562. Retrieved from EBSCOhost database.
- Smith, J. (2012), The Companies With The Biggest Jumps In Employee Happiness, *Forbes*. Retrieved from [http://www.forbes.com/sites/jacquelynsmith/2012/08/17/the-companies-with-the-biggest-jumps-in-employee-happiness/?goback=%2Egde\\_3817492\\_member\\_148674872](http://www.forbes.com/sites/jacquelynsmith/2012/08/17/the-companies-with-the-biggest-jumps-in-employee-happiness/?goback=%2Egde_3817492_member_148674872).
- Trochim, W. (2006). Deduction & induction. In W. Trochim (Ed.), *Research Methods Knowledge Base*. Retrieved from <http://www.socialresearchmethods.net/kb/dedind.php>
- Uddin, I., Tanchi, K. R., & Alam, N. (2012). Competency mapping: A tool for hr excellence. *European Journal of Business and Management*, 4(5), 91-99. Retrieved from <http://www.iiste.org/Journals/index.php/EJBM/article/view/1508/1440>.
- Weiler, N. W., & Schoonover, M.D., S. (2001). *Your soul at work*. Retrieved from [http://www.maritz.com/~media/Files/MaritzDotCom/WhitePapers/ExcecutiveSummary\\_Research.ashx](http://www.maritz.com/~media/Files/MaritzDotCom/WhitePapers/ExcecutiveSummary_Research.ashx).
- Williams, S. (n.d.). *Clarifying and applying personal values: Priorities and integrity* . Retrieved from <http://www.wright.edu/~scott.williams/LeaderLetter/values.htm>.
- Work – a great place to grow. (2006, March). *NZ Management magazine* , Retrieved from <http://www.archivesearch.co.nz/default.aspx?webid=MGT&articleid=21178>

# **The Effect of Transactive Memory Systems (TMS) on Effective Group Performance of Virtual Teams**

Joy Oguntebi, Rochester Institute of Technology  
Robert Barbato, Rochester Institute of Technology

## **Abstract**

The relationship between transactive memory systems (TMS) and group performance is explored in this paper. Six virtual student teams from a global product development course are compared using qualitative analysis and the positive effects of developing transactive memory systems on group performance are discussed. Stronger teams are compared to weaker teams to examine these relationships in depth and over time. Findings are discussed and implications for business organizations are enumerated.<sup>2</sup>

## **Introduction**

The purpose of this paper is to explore the relationship between transactive memory systems (TMS) and effective group performance. A transactive memory system incorporates the shared awareness of who knows what within a team with the team's ability to utilize the individualized expertise in executing a team goal. This study investigates how TMS develops within, and how TMS enables performance within both strong and weak teams.

This study uses cases to provide a more in depth analysis of the complex dynamics that exist among TMS and other group processes and performance outcomes. Six virtual student teams were analyzed to contrast and compare the dynamics of the three above average teams in terms of performance against the three below average teams. This paper will first look at how performance is evaluated, and then it will explore TMS within the teams and its effect on the performance spectrum. Finally, implications for business organizations will be discussed.

## **Team Performance Evaluation**

Students in a global product development course made up the eight teams, and each team was evaluated by both the professor and the course participants. The evaluations centered on a team's ability to execute project tasks based on several outcomes that were either project-based or process-based. The project-based outcomes focused on the performance related to the team's deliverable, which had been outlined by course expectations. For each of three design reviews the quality of the deliverable was the primary indicator of a team's performance. In addition to the deliverable, the amount of rework required was used to measure a team's performance after each design review. The teams were also evaluated on process quality. For instance, the extent to which a team managed its time effectively was used to measure process quality. Other measures of process quality included smooth and efficient task execution.

Even though there were 8 student teams, only the three stronger and three weaker performing teams are analyzed in this study. The absolute level of performance and the association with process outcomes such as group enablers were the two criteria used to identify the stronger performing teams (Teams 4, 5, and 8) and the weaker-performing teams (Teams, 1, 2, and 6). The three strong teams were consistently high on both the project-based and process-based outcomes. In comparison, the weaker-performing teams were low on the performance scales and failed to effectively use group processes to improve their performance. The selection of both the strong teams and the weak teams were consistent with the professor's evaluations of

---

<sup>2</sup> A previous paper presented at the 2011 SBI National Conference used these six case studies to examine different variables. Parts of this paper will necessarily duplicate some of the methodology reported in that previous paper.

team performance as well as the students' evaluations of their respective team performance. The professor rated Teams 4, 5, and 8 as the best-performing teams and Teams 1, 2, and 6 were evaluated as part of the weak-performing group of teams. The student self-ratings of performance illustrate the same categorization of stronger- and weaker-performing teams.

*A Comparison of Strong and Weak Teams*

Table 1 uses a descriptive name instead of a team number, and it includes a brief description of the final project deliverable.

Table 1 Team Project Description

| Category     | Team name     | Team number | Project Description  |
|--------------|---------------|-------------|--|
| Strong Teams | Communicate   | 4           | Wooden refrigerator console  |
|              | Strong Finish | 5           | Window with a device attached to the window that opens and closes the window based on simulated weather data; also calculates the amount of energy saved |
|              | Camaraderie   | 8           | Foldable shopping cart that can be placed in vehicle trunk upon shopping completion  |
| Weak Teams   | Weak Finish   | 1           | Can crusher with four sensors: aluminum can, empty can, can count, full bin  |
|              | Confusion     | 2           | Community refrigerator cabinet with different compartments that locks and unlocks based on card swiped   |
|              | Detached      | 6           | Recycling sorter that sorts waste based on material or other desired category  |

Team Communicate consistently used strong communication practices throughout the semester, and this pattern was established from the very beginning. Although social interactions were somewhat fragmented at the beginning of the course, both synchronous and asynchronous means of communication were employed based on the accessibility of different communication tools. The team also used a project leader to facilitate task delegation which improved team effectiveness. This early investment in effective communication practices paid dividends later when two of the team members were unable to attend the first face to face meeting and one member was unable to attend the second face to face meeting. Team Communicate received a grade of A in the course.

Team Strong Finish began the course as the worst performing team after the first design review evaluation, but overcame significant challenges that resulted in their initial poor start. This team initially had poor communication practices as a result of scheduling conflicts and the time zone differences. In addition, during the team's first face to face meeting group members failed to gel and bond as a team, and poor team collaboration resulted in a substandard design review. However, their performance steadily improved as the members learned to use the unique expertise of each individual member. In the end, Team Strong Finish finished the course as the best performing team with a grade of A+.

Team Camaraderie maintained a high level of non-task interaction throughout the semester, and this led to a high comfort level with virtual communication. The team interacted frequently on a social basis separate from group task meetings. The high level of interaction helped the team to create a systemized schedule at

the beginning of the course which assisted the team in managing their project. Unlike some of the other teams, the individuals on the team did not have distinct expertise, so finding appropriate tasks for each individual was more of a challenge. This led to the creation of the position of project manager to help facilitate task assignment. Through their strong team cohesion and successful use of both face to face meetings, Team Camaraderie received an A at the conclusion of the course.

Team Weak Finish was the best performing team at the outset, but they were unable to sustain this performance for the duration of the project. Before the first face to face meeting, Team Weak Finish did not invest in many performance enabling activities, but they had a very successful first face to face meeting, and this may have led to an overreliance on this meeting to make significant progress on the project. The team was eager to accomplish a lot during this meeting, especially due to their inability to communicate and accomplish much work beforehand. Team members took the initiative in volunteering for specific tasks based on interest and there was a committed approach to accomplishing these tasks. However, subsequent to this first face to face meeting, Team Weak Finish's performance waned because they were unable to conduct effective decision-making via virtual communication, especially with frequent absenteeism from virtual collaboration meetings. Team Weak Finish was hoping to regain their momentum at the second face to face meeting, and they were somewhat unconcerned after they realized that they were behind schedule. However, the second meeting did not result in the high level of productivity like the first meeting, and the team was unable to accomplish task requirements resulting in the worst self-evaluation of all the student teams. They received an A- in the course.

Team Confusion was unable to develop a clear structure and processes to help them execute effectively, and this problem persisted throughout the semester. Although the team was able to communicate virtually over the course of the semester and coordinate tasks in the beginning, several communication failures negatively impacted the team. Although Team Confusion developed an awareness of differences in individual skills through interactions, there was role confusion on task assignments, and this led to a lack of validation of task completion. The team interacted well socially but the camaraderie did not usually carry over to task-related work. The lack of specified assignments and task completion validation resulted in poor coordination of responsibility and decision-making. Team members reported being confused as to the direction and goals of the team. Overall the lack of a structure with well-defined roles and responsibilities led to Team Confusion receiving one of the lower grades (A-) in the course.

Unlike Team Camaraderie which exhibited the strongest cohesive unit, Team Detached was unable to gel as a team throughout the project. Team Detached communicated frequently in the beginning by using several communication tools, and this resulted in very effective virtual collaboration. However, there was not much social development due to outside obligations and the dearth of social interaction resulted in the members of Team Detached bonding with members from other teams. Furthermore, their homogeneous skill background - all members were either mechanical or electrical engineers - created difficulty in selecting a project. Absenteeism was high, and there were insufficient controls to correct this and other problems. Team Detached did not invest in social interactions as a team, so cliques formed and this caused more team dissension and ineffective decision-making. Team Detached ended up receiving the lowest performance evaluation from the professor as well as a grade of A- in the course.

### **TMS Emergence**

A transactive memory system incorporates the shared awareness of who knows what within a team with the team's ability to utilize the individualized expertise in executing a team goal. This study examines how TMS developed within the six teams as well as how TMS differently enabled performance within the Strong and Weak Teams.

### Strong and Weak Team Comparison

Table 2 displays the self-reported team TMS ratings at each data collection point for the stronger- and weaker-performing teams. There is a general association between TMS strength and the team category (strong or weak), particularly at Time 3, after TMS had crystallized.

Table 2. Self-reported Team TMS Ratings (5.0 Likert Scale)

| Category     | Team          | Time 1 | Time 2 | Time 3 |
|--------------|---------------|--------|--------|--------|
| Strong Teams | Communicate   | 3.7    | 3.5    | 4.0    |
|              | Strong Finish | N/A    | 3.9    | 3.7    |
|              | Camaraderie   | N/A    | 3.8    | 3.9    |
| Weak Teams   | Weak Finish   | 3.8    | 3.9    | 3.2    |
|              | Confusion     | 3.6    | 3.7    | 3.7    |
|              | Detached      | N/A    | 3.2    | 3.3    |

#### Strong Teams

This study uses three stages of TMS progression (*Specialization*, *Credibility*, and *Coordination*) for the Strong and Weak teams in order to analyze changes over time. Table 3 shows the progression of TMS characteristics for the stronger-performing teams. Team Communicate was able to identify individual expertise earlier in the project and the initial focus on conflict resolution, communication style, and member personality identification enabled the members to establish a high level of trust which they were generally able to maintain throughout the semester. The team's initial approach to organizing the individual tasks was unproductive. As one member explained early in the process, "Some days, I was satisfied but like I said there were some days that we didn't get a lot done and looking back if we would have had an agenda in the beginning, it would have helped out a lot." Although the team's coordination strategies started out somewhat fragmented, the team reported a significant improvement in the *coordination* efforts of the members, especially towards the end of the project even when a participant was unable to attend the second F2F meeting.

During the first F2F meeting, Team Communicate expressed that individual skills surfaced and members began to be aware of unique *specialization* within the team. A member notes,

*I think we worked a lot better together during the [second F2F] experience than in the [first F2F] experience because we realized what people were good at and everybody pretty much knew what their tasks were, so they could work on it instead of waiting around trying to figure out what they should be doing.*

The team had initially used a voluntary approach to execute tasks. However, they later decided to elect a project manager to help delegate tasks to the appropriate team member. Doing this improved the team's *coordination* because the team leader could ascertain that all necessary tasks were accounted for. Team Communicate established strong social interactions throughout the semester which enhanced their *credibility* evaluations.

*Credibility* alone was not always an ideal indicator of a strong-performing team. For example, Team Strong Finish did not make significant investments in team cohesion. Moreover, it is interesting to note that although the *credibility* rating of Team Strong Finish declined from Time 2 to Time 3, the team still received

the highest team grade in the course (A+). The *coordination* of Team Strong Finish was evident; the team relied on meticulous planning and consistent feedback from the professor. A Team Strong Finish participant states: “We don't compete with other teams; we make sure the professors are satisfied.” Although they used their individual expertise adequately, a collective fear of failure seemed to prevent them from bonding with or relying on teammates. The team’s decision to develop the project based on member *specialization* was an interesting bottom-up approach and seemed to be the essence of this team's optimal performance in the midst of obstacles including the lack of extreme social interactions. Another member states that as the semester progressed, “task specialization/expertise was realized and expertise in task areas grew; people crossed over to help where needed.” Although Team Strong Finish did not have a defined team leader like Team Communicate or Team Camaraderie, the members were able to rely on the project management expertise within the team. A member observed that:

*Three of us have learned about project management in the past, and we're sort of managing and leading the group...these three people have taken on an additional responsibility. So it really helps the other shift, as opposed to just one person doing all the leading and all the managing, we really have a team.*

Within Team Camaraderie, team unity appeared to be the main focus and collective decision-making was a top priority. This is demonstrated by the high *credibility* ratings in Table 3. Although the team communicated frequently, there was not much initial exchange of individual *specialization*. It was not until later in the semester that Team Camaraderie discovered that there was homogeneity of individual expertise. Thus, similarly to Team Communicate, Team Camaraderie also employed a team leader who *coordinated* task-expertise assignments more effectively. The project leader discusses the team’s decision to elect a project leader to improve on their *coordination*:

*Having to start from the beginning really, really showed what we were good at and what we weren't and the main thing that we weren't good at is organization, mainly I think we hadn't assigned anyone as project manager at that point...had we been more organized, I think we could have done more.*

Although the team started the semester with high *credibility*, but low *specialization* and team *coordination*, this team was able to develop a strong TMS by the end of the course. Team members became aware of individual expertise and the team was able to utilize this successfully in executing their project.

Table 3. TMS Emergence for Strong Teams (5.0 Likert Scale)

| Team          | TMS Characteristic | Time 1 | Time 2 | Time 3 |
|---------------|--------------------|--------|--------|--------|
| Communicate   | Specialization     | 3.9    | 3.7    | 4.1    |
|               | Credibility        | 3.8    | 3.8    | 4.0    |
|               | Coordination       | 3.3    | 3.0    | 3.8    |
| Strong Finish | Specialization     | N/A    | 4.2    | 4.1    |
|               | Credibility        | N/A    | 4.0    | 3.5    |
|               | Coordination       | N/A    | 3.4    | 3.5    |
| Camaraderie   | Specialization     | N/A    | 3.8    | 3.9    |
|               | Credibility        | N/A    | 3.9    | 4.2    |
|               | Coordination       | N/A    | 3.6    | 3.7    |

## Weak Teams

Table 4 shows the TMS self-reported ratings of the weaker-performing teams. The self-rated TMS of Team Weak Finish declined from Time 1 to Time 3 when the TMS was thought to have crystallized. By the end of the semester, the team reported a decline in the trust level concerning the performance of assigned tasks, this is evidenced in the *credibility* ratings. In addition, although Team Weak Finish collaborated effectively during the first F2F meeting, the members were unable to use their individual *specialized* skills to coordinate task execution and overcome the geographical dispersion. Team morale could have also impacted the team's efforts. One of the participants who saw himself as the group leader/motivator mentioned that he had a "pessimistic outlook" going into the second F2F meeting. He explains,

*Team America has come to a consensus that we don't care if our project looks pretty or not. I mean aesthetically pleasing, yeah, that'll be great, but given the manufacturing capabilities that we have, we're not expecting anything. And I think from my experience doing design projects, it's really more an understanding of what can be done than what you think is realistic so I'm going in there with a lax attitude - so as long as it works, we're fine. We don't have to make it look like the real thing. If it looks like the real thing, then that's great. What is the marginal benefit of it?*

Overall, this team had a relaxed approach to the project; they did not fully commit to collectively utilizing the expertise of the members to execute the project as a team. Team Weak Finish was unable to develop an effective TMS at the conclusion of the project.

At Time 3, Team Confusion had the highest TMS self-rating of all the weaker-performing teams (Table 4). Moreover, the team was unable to develop and utilize a TMS. A U.S. participant noted:

*Our European counterparts were supposed to get the wood and cut it so that it would be ready to go. They bought the wood like 2 or 3 days before we got there and when we got there they hadn't even drawn up where to cut. We had to basically spend the first half of the first day [of the second F2F meeting] doing what they were supposed to do before we got there. And our Asian teammates bought the wrong kind of card scanning system. Basically, it wasn't going to work and they knew this before we left and they didn't tell us until we got there. So it really hurt our prototype.*

Although the team established an awareness of individual *specialization*, there was evidence of a lack of team structure and *coordination* that would have enabled the team to effectively utilize the individual expertise of the members. Team Confusion interacted well socially; however, the social interactions did not extend to task-related work and the *credibility* level of the team declined, especially after participants from the European and Asian Universities came unprepared to the second F2F meeting. Overall, ineffective communication as the course progressed led to a decline in *credibility* and task *coordination*, thus resulting in a weak TMS.

TMS self-ratings for Team Detached were comparatively low for both Time 2 and Time 3 (there is no available data for Time 1). Throughout the semester, Team Detached expressed difficulty in gelling as a team and attributed this to the subsets of cohesive units that developed within the team. This was associated with the level of *credibility* that existed within the team. The team reported that there was no unique *specialization* among the team members. Team Detached ultimately selected an unchallenging project. In addition, the team was unable to effectively resolve team conflicts. These occurrences are evidence of a lack of structure in task division and an overall inability to *coordinate* tasks effectively. Team Detached was unable to develop a successful TMS.

## Conclusion

The stronger-performing teams were able to successfully develop a transactive memory system, an awareness of individual expertise, and they were able to utilize this expertise in accomplishing their tasks. Teams Communicate and Camaraderie used a combination of individual volunteering based on expertise and a project leader to facilitate task delegations. Although Team Strong Finish got off to a slow start, it had several members with project management experience it was able to effectively allocate the project's components to the appropriate team members.

Unfortunately, the weaker-performing teams were unable to develop a transactive memory system at the conclusion of the semester. Lack of task structure and coordination were associated with the inability of the Weak Teams to execute the project. Team Weak Finish and Team Detached formed sub-units or mini-teams that interacted socially and communicated more frequently. However reduced communication and ongoing conflict among members of the entire team impacted the ability of these teams to collaborate effectively. Team Confusion's perception of the TMS that developed within their team did not align with the low performance outcome and the team's inability to allocate tasks efficiently. Lack of team trust was also evident in all of the weaker-performing teams and we observe that the absence of such "swift trust" reflected on the teams' communication practices, individual motivation, and overall team project management.

Table 4. TMS Emer Emergence for Weak Teams (5.0 Likert Scale)

| Team        | TMS Characteristic | Time 1 | Time 2 | Time 3 |
|-------------|--------------------|--------|--------|--------|
| Weak Finish | Specialization     | 3.7    | 4.1    | 3.6    |
|             | Credibility        | 3.9    | 3.7    | 3.1    |
|             | Coordination       | 3.9    | 3.8    | 3.0    |
| Confusion   | Specialization     | 3.6    | 3.8    | 4.0    |
|             | Credibility        | 3.7    | 3.9    | 3.5    |
|             | Coordination       | 3.4    | 3.3    | 3.7    |
| Detached    | Specialization     | N/A    | 3.6    | 3.3    |
|             | Credibility        | N/A    | 3.3    | 3.4    |
|             | Coordination       | N/A    | 2.8    | 3.1    |

## Implications

Modern technologies and more globalized economies will result in a greater use of virtual teams in business organizations, and these teams will need to develop TMS in order to operate effectively. Decreased face to face interaction means that virtual teams have particular challenges in addressing issues surrounding TMS, and it is important to be aware of the dynamics that affect the performance of virtual teams and to take appropriate actions to enhance the performance of those teams.

Cultural diversity poses important challenges and the first implication is that teams need to acknowledge the cultural differences that will exist in virtual teams in a global economy. Asians are typically more reserved and generally seek to avoid conflict. In the virtual teams in this study, the Asian University participants were more introverted than their non-Asian teammates. This familiarity with each other along with the language

barriers that these participants encountered caused them to experience more isolation. In contrast, the participants at the U.S. University and to a lesser extent at the European University were culturally heterogeneous. Overall, there was a consensus among all the teams about the need to adjust to differences in expectations, interpretations, and procedural approaches among team participants. And although virtual teams provide a cultural challenge the participants in this study expressed appreciation for the opportunity to interact with individuals from varying cultures in spite of the challenging class project and the cultural unawareness that they encountered

A second implication is the importance of understanding the communication preferences of virtual teams and the need to balance and integrate multiple preferences. Teams tended to prefer either Virtual Communication or F2F Meetings initially to carry out their project work. However, towards the end of the semester, the more successful teams were able to effectively balance both communication approaches. The weaker-performing teams that relied too heavily on the initial F2F meeting to accomplish tasks were unable to do the same with the second F2F meeting.

A third implication is the importance of team cohesion in establishing TMS. Team cohesion plays a supporting role in the development of TMS and the formation of mini-cohesive networks in weaker-performing teams was associated with member absenteeism and a lack of consensus in decision-making.

Finally, the development of TMS should be an ongoing concern for virtual teams. Some of the weaker-performing teams appeared to have developed a TMS in the earlier stages of the project, but were unable to sustain it, which impacted their project performances. The project's conclusion was the instance at which the stronger-performing teams had developed their strongest TMS.

# The Entrepreneur and the Business Venture: The Symbiosis of a Life Cycle

James Biteman, Tulane University

## Abstract

Based on suggestions of previous authors, this paper gives a lens—*phases of growth*—through which to view and understand the growth of an entrepreneurial venture and, simultaneously, that of the entrepreneur—which results from the experience of learning through dealing with the dominant managerial problems that characterize each phase of early growth. The model presented here differs from other growth models phase by separating the phases and looking at the detail of process during early growth.

## Introduction

This paper describes a way of understanding a business venture and the entrepreneur who leads it. It presents a predictable pattern—a set of life stages—that nearly every business venture follows. The model builds on suggestions of previous authors, especially Penrose (1959), Greiner (1972), Quinn and Cameron (1983), Magretta (2002), and the more recent work of Roche (2008). Common to those authors, the model suggests a process of growth through *phases* with the work of each phase setting the stage for the next phase of growth. At present, however, we lack a workable theory for understanding what actually happens as a business venture develops—a situation that this paper seeks to correct.

## Literature on Life Cycles of Firm Growth

The idea of an organizational *life cycle* is far from new. As early as the 1950's, writers suggested that organizations *grow*, that is they progress and change in irreversible ways over time. In "The Theory of the Growth of the Firm," Edith Penrose (1959) established that firms do in fact pass through life changes and grow and they do so through an *internal* process, not unlike that of biological growth. Further, that process not only produces changes in the nature of the organization but changes in the perception and knowledge of management as well.

As noted by Rugman and Verbeke (2002), following the work of Wernerfeldt (1984) and Teece (1982), Penrose's book, and especially her observations regarding resources, provided seminal ideas for seeing the firm as a set of resource-based activities. Those ideas served as the foundation of *Resource Dependence Theory* (Pfeffer and Salancik, 1978). Subsequent to the work of Penrose (1959), others (Prahalad, C.K. and Hamel, G. 1990, Porter, M. and Villar, V. 1985) added the idea that certain resources—knowledge (Porter and Villar 1985) or competencies (Prahalad and Hamel 1990) could become the source of sustainable competitive advantage and lead to the capture of market "rent" (Rugman, A.M. and Verbeke, A, 2002), thus supporting the concept that changes occur not only in the organization but in its executives as well.

Chandler (1962) suggested the idea of a *life cycle*, in which a firm's structural development occurred as a response to the development of strategies to follow opportunities in a changing environment. Porter (1979) also noted that cumulative experience of incumbent firms and the growth that accompanied it (especially if kept proprietary) could serve as a barrier to competitive entry.

Greiner (1972) suggested an internally driven model of growth, but added the idea that the organization passes through a series of developmental *phases*. Greiner proposed a model in which, "Each phase begins with a period of evolution, with steady growth and stability, and ends with a revolutionary period of substantial organizational turmoil and change." Greiner proposed a five-stage model, in which the firm's achievements at one stage strongly affect its ability to master the challenges of each succeeding stage. Each stage, he concluded, presents a "dominant management problem that must be solved before growth can continue." (Greiner, 1972)

Quinn and Cameron (1983) reviewed the work of nine prior authors (Adizes, I 1979, Downs, A 1967, Grenier, L. 1972, Kimberly, J.R. 1979, Lavoie, D. and Culbert, S.A. 1978, Lyden, F.J. 1975, Miles, R. H. 1980, Neal, J.A. 1978, Scott, B.R. 1971, and Torbert, W. R. 1974) including the aforementioned work of Greiner (1972). Based upon a comparison of the models suggested by those authors plus the results of a *framework of organizational effectiveness* developed by Quinn and Rohrbaugh (1983), they concluded that the models of those authors could be combined into a single four-stage life cycle model for the growth of a firm, each with its unique set of processes and concerns:

1. *Entrepreneurial* (early innovation, niche formation, creativity),
2. *Collectivity* (cohesion, commitment),
3. *Formalization and Control* (stability and institutionalization) and
4. *Elaboration of Structure* (domain expansion and decentralization).

They note (following Lavoie and Culbert, 1978), “These stages are (1) sequential in nature, (2) occur as a hierarchical progression that is not easily reversed, and (3) involve a broad range of organizational activities and structures. (Quinn and Cameron, 1983)

Later studies examined the problems faced by small businesses at each of four phases of life cycle growth (Dodge and Robbins 1992), the effects of life cycle stage on firm governance (Roche 2008) and external stakeholder relationships (Jawahar and McLaughlin, 2001).

This paper presents a model similar to that suggested by Greiner (1972) and includes the idea of hierarchical growth suggested by Quinn and Cameron (1983). This model differs, however, in two important respects. First, it includes both the entrepreneur and the enterprise. Second, it proposes a series of small but discreet phases of growth within what other authors have seen as a single phase.

### **Support for the Model**

Support for the model comes from several sources. First is Penrose (1959), who determined that firms do grow, “...implying an increase in size or an improvement in quality as the result of a process of development, akin to natural biological processes...” Penrose also noted that growth is not limited to elements of the organization. Growth occurs in the management of the organization as well, as the result of *experience* which produces a kind of learning that is substantively different from the kind of knowledge that can be obtained from classroom study or any other way. She also notes that, to a large extent, this knowledge gained from experience is unique to the particular organization, and that experience gained from one organization is not transferable to another. Thus, each time an entrepreneur begins a new venture, the learning process begins anew.

Knowledge comes to people in two different ways. One kind can be formally taught, can be learned from other people or from the written word, and can, if necessary, be formally expressed and transmitted to others. The other kind is also the result of learning, but learning in the form of personal experience. ... Experience produces increased knowledge and contributes to ‘objective’ knowledge insofar as its results can be transmitted to others. But experience itself can never be transmitted; it produces a change—frequently a subtle change—in individuals and cannot be separated from them. ... This increase in knowledge not only causes the productive opportunity to change in ways *unrelated to changes in the environment*, but also contributes to the ‘uniqueness’ of the opportunity of each individual firm. (Penrose 1959:48) (Emphasis mine)

Strongest support for a model of organizational growth and development occurring in stages comes from Greiner (1972), who observed that firm growth takes place in discreet phases, each of which set the stage for the next. He proposed five *phases*, during each of which the focus and process of management differed from others. He observed, “Managerial practices and problems are rooted in time. They do not last through the life of an organization.” Of particular importance, though, is Greiner’s conclusion that each phase built on the previous, “Each phase produces certain strengths and learning experiences in the organization that will be essential for success in subsequent phases.” (Greiner, 1972)

Also supporting a stages of growth model, Quinn and Cameron (1983) concluded after comparing the work of nine other writers that organizational growth occurs in “developmental stages” that are “sequential in nature.” They also note that “a consistent pattern of development seems to occur in organizations over time, and organizational activities and structures in one stage are not the same as the activities and structures present in another stage.” (Quinn and Cameron, 1983)

Following Greiner’s (1972) notion that each phase has its own characteristic problem or concern and that each phase is linked to the next, “it is important to note that each phase is at once a result of the previous phase and a cause for the next phase.” (Greiner, 1972) He notes that movement from one phase to the next “is characterized by the *dominant management problem* that must be solved before growth can continue.” (Greiner, 1972) (Emphasis mine)

Support for the specific aspects of each stage of development of an entrepreneurial venture, however, comes from other authors. Magretta (2002) notes specifically that development of strategy *follows* the development of a business model, “Strategic thinking begins with a good business model that describes, as a system, the economic relationships central to fulfilling an organization’s particular purpose.” (2002:71).

Chandler (1962) concludes that development of organizational structure *follows* development of strategy, “Structure follows from strategy, and the most complex type of structure is the result of the concatenation of several basic strategies. (Chandler, 1962: 16) Porter (1996) also notes that a firm’s value creating activities should be *tailored to its strategy*.

Support for placing the work of a “governance” phase after that of development of the organization’s structure and systems, as well as differentiating its knowledge, activities and managerial problems, comes from the work of Roche (2008). In a study of 34 directors drawn from a sample of participants in a “Directors’ Education Program,” Roche concludes that the functions of the board and the needed capabilities of the director *varied according to the firm’s phase in its life cycle*.

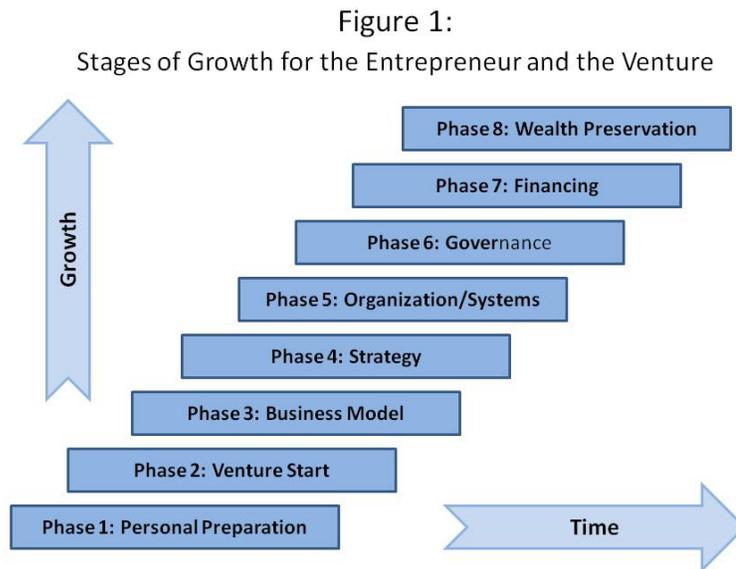
### **The Model**

In important ways, the stages of development of an entrepreneurial venture resemble ones of human development (Kohlberg, 1981). As noted by Greiner (1972), the entrepreneur may even attempt to use the methods that worked in the last phase, but to no avail. As noted by Penrose (1959) not only does the firm grow, the knowledge of the entrepreneur—as a result of experience—grows as well.

### **Growth Phases**

The balance of this paper presents and explains a model that separates the life cycle of the entrepreneurial venture into discreet developmental phases. Each phase involves learning and mastery of certain processes and solving certain problems—that then sets the stage on which the work of the next phase builds. Like Greiner’s (1972) model and Quinn and Cameron’s (1983) prescription, this model suggests that *the accomplishments of one phase form the necessary precursors for the work of the next. The phases of growth occur in a defined sequence, and the work of one must be essentially complete before the work of the next can effectively begin.*

Figure 1 presents an overview of the model of the stages of development of the entrepreneurial venture, showing the discreet phases through which a business venture may pass.



### **Phase 1: Personal Preparation**

Often referred to as having an “entrepreneurial spirit,” some individuals seem especially suited and bound, perhaps even from birth, to manage a business venture. At the same time, though, many successful entrepreneurs seem to have become entrepreneurs by accident—a parent who founded a family-owned business suddenly dies or becomes incapacitated; an employer decides to retire, wishing to see the business continue and desiring an opportunity for its employees, for example. Others, pressured by protracted unemployment, search for opportunity, often turning a hobby into a viable business. The path to successful entrepreneurship seems to be as varied as the people themselves. Let’s look at some examples.

One young CEO of a successful international agribusiness described how he became an entrepreneur. His start was borne of a tragedy unique to the nature of his business and the place where it was conducted. Engaged in plantation and processing of an agricultural product in Colombia, he described his beginning in a way that told of the pain of the tragedy, how his father was kidnapped from one of the company’s plantations and murdered by his kidnappers. Although such events were all too common in that place at that time, the family was not prepared. As is the custom in Latin families, it fell to my young friend—the eldest son—to take charge of the family’s business. Although barely twenty-one at the time, he shouldered the responsibility. Family welfare and the welfare of several communities depended upon his leadership.

In another recent situation, owners of an industrial supply and service business decided to sell the business. They were approaching the age of ninety, and their business, which was coupled to a declining industry, had been in decline for a number of years. To realize some of the residual value of the business but especially to see it continue, they offered to finance a buyout of the business by a few existing employees. Although the employees had no experience as entrepreneurs, they considered other options and decided to go ahead. The most difficult part, as one said, was convincing wives that it was a good idea to take on debt greater than a house mortgage and to do so with a business that was declining. As one said, “At least for two of us, we were well set financially. We didn’t want to spend a lot of money, just to get a poor paying job.”

Still another entrepreneur drew upon a dream that he had while in business school. He and two of his classmates, impressed by the idea of micro-finance, decided that they could develop an online platform for financing small businesses. The time was particularly right, as their town (New Orleans) was just beginning to recover from the ravages and destruction of Hurricane Katrina. Their business plan won a prize in a multi-school competition for social entrepreneurship, and they were able to obtain some seed money to actually start the business.

The point of this section is that, while every individual had prepared in one way or another, all had prepared in one similar dimension. Each had, in some way, prepared for the responsibility or “calling” that lay ahead. Figure 2 illustrates the process and achievements of Phase 1, *Personal Preparation*.

## Figure 2

### Phase 1: Personal Preparation

- Entrepreneur’s Achievement
  - Emotionally and psychically prepare
  - Envision the role to play
  - Build support from key others

### Phase 2: Starting the Venture

Something has to happen in order for the business to start. To provide a metaphor, we can recall times past when vehicles did not have the kind of hydraulic power steering that they have today. Someone learning to drive a heavy truck, for instance, could find himself (no girls in those days) struggling with a large steering wheel that seemed almost frozen in place. At the suggestion of an older, more experienced driver, he would start the truck moving. Then, with the truck moving, it became much easier to turn the steering wheel and to direct the truck in the desired direction. The key was to get it moving. Direction did not matter.

Using the example of the industrial sales and service business, although it had been operating, its new owners had to figure out a new direction. Although the business was moving forward, it was doing so at a declining rate and with a likely end not too far in the future. If they continued to operate the business as it was being operated when they took it over, it would be only a matter of time before they would be the ones to permanently close its doors. They had to find new direction and begin to steer the business in that direction. Figure 3 illustrates the process and learning of Phase 2, *Starting the Venture*.

## Figure 3

### Phase 2: Starting the Venture

- Entrepreneur:
  - Step into leadership role
  - “Take the helm”
- Venture:
  - Started (in some direction)
  - First processes functioning

### Phase 3: Envisioning Success

While it may be true that every entrepreneur envisions success before beginning the enterprise, few can actually envision success in tangible terms. Many, especially those educated in the business school classroom, have become adept at constructing pro-forma financial statements or doing other kinds of business modeling. The problem with this approach lies in one simple fact, it is premature. Forecasts of sales revenues are not the same as real sales revenues. Something else has to happen first. Important learning and development have just not yet taken place. What, then, must happen?

First, the enterprise—and the entrepreneur—must have reached the point of readiness for the next phase. Until the venture has reached sufficient maturity, it cannot move forward. Once it has, though, the next task for the entrepreneur lies in defining the venture's "business model." The business model provides the "underlying logic" for most business decisions to be made by the entrepreneur. It tells the story of how the business actually works—how it acts to create value for its customers, how it is different from other businesses. In the words of Joan Magretta (2002: 44, 49)

*A business model is a set of assumptions about how an organization will perform by creating value for all the players on whom it depends, not just its customers. In essence, a business model is a theory that is continually being tested in the marketplace.*

Successful business models, however, are not imagined. They are learned. They may be learned at the price of protracted struggle, often learning what actually works and what does not through painful trial and error (and sometimes a bit of luck). Returning to an earlier example, the new owners of the industrial sales and service business had to develop a new business model. The old business model was based on providing support to maintenance operations in surrounding lumber and plywood mills and to a local fishing fleet. With a decline in timber harvest and fish supply (related to each other), the base of business had declined substantially. They had to find a new way to serve a new and growing base of customers. Some things remained viable, though. Relationships with some suppliers—especially smaller ones who would custom prepare an order and quickly ship—became part of the new model. New customers, like the big mills, were also time sensitive, but not so much. A dairy farmer needing repair of an irrigation system could wait a day or two but not a period of weeks. A municipal water or waste treatment facility needing repair of a piece of process equipment could wait a few days in many cases.

The key to their new business model, rather than their ability to quickly repair a piece of large mill machinery, became instead the convenience offered to customers. By sending a representative with a truck to the plant or farm, equipment could be brought back to the shop, repaired and returned a few days later. The important point here, though, is not the business model itself but that it was *different* from that of the business in the past. Although not easily articulated by the business' new owners, the value they created and how to do so were quite clear in their minds. It worked in a different way for a different set of customers, but it called upon relationships and reputation that had been built in the past. The key, though, is that it had to be *learned*. It could not have been laid out on paper ahead of time, as it developed (and is still developing) through trial and error and a desire to better understand the value relationship of all aspects of the business.

Figure 4 illustrates the processes and learning of Phase 3, *Development of the Business Model*:

## Figure 4

### Phase 3: Envisioning Success

- Entrepreneur:
  - Knows the venture's *business model*
  - Clarity of daily purpose
  - Able to lead with confidence
- Venture:
  - Basic internal processes have become routine
  - Systems of measurement and metrics in place
  - Responsibility structure

### Phase 4: Strategy

By the time that the venture reaches this stage, it will have developed its business model, and it will already have begun to encounter *competition*. What is missing and will be the next stage of growth, then, will be what we know as strategy.

Strategy, like a business model, cannot be developed in a vacuum. Useful strategy comes only from engaging competitors in a competitive environment. Only then, can a business or entrepreneur truly know what is needed. Until actual engagement with a competitor, a business cannot know what they face—what strengths each competitor possesses and how they will choose to compete.

For the venture, strategy is different from the development of a business model. Where the business model looks at the workings of the business, strategy looks at the playing field on which the business competes. It looks at its market space and sees how all of the other businesses serving the same or similar customers have positioned themselves. Using our example of the industrial supply and service company, they have two principal competitors in the supply side of the business. One of them is a well-established local business, the largest in the region. The second is a branch of a large, national company that has less of a presence in the local market. Neither, however, is particularly convenient to a significant portion of contractors.

In their service business, this company faces a different competitive environment. The equipment in which they specialize is large electric motors and power drive systems. In that area, they are “the only game in town.” For a relatively wide region, they are the only company who will come to the plant site and make on-site repairs or take pieces of equipment into their own shop for repair. As mentioned earlier, though, the nature of that business has been changing. The large lumber and plywood mills have mostly gone out of business as timber harvesting has declined. Even those who remain operate only on a seasonal basis. They have been replaced, though, by smaller business, much of whom “walk-in.”

In both business areas, the firm's competitive advantage lies in expertise. Service, whether on-site at a lumber mill or in-house for a dairy farmer, requires special knowledge and ability. Similarly, much of the supply side of the business requires specialized knowledge. The challenge, of course, is to establish in the minds of present and potential customers this difference and to define accurately the market space in which the capability can be used to competitive advantage. Like the development of the firm's business model, this stage of development requires a large amount of learning. It also requires work, in the form of much trial and error. Further, it builds on the work of the last stage. Without having developed the business model, it would be difficult if not impossible to move ahead to develop a position in a competitive market space.

Michael Porter (1996) clarifies this point. He differentiates between what he calls *operational effectiveness* (managing the processes of the organization effectively) and *strategy*.

Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise. But they work in different ways.

Like other phases of development, strategy is not magically conceived. Strategy, like other phases, comes to the venture through hard work and sometimes difficult learning. Figure 5 shows the process and development of Phase 4, *Strategy*.

### Figure 5

#### Phase 4: Strategy

- Entrepreneur:
  - Develops clear picture of market and competitive relationships
  - Envisions complexity of environment
- Enterprise:
  - Develops processes and skill sets that lead to unique *competence*
  - Gains people with needed skill sets

### Phase 5: Organizational Structure and Systems

As strategy develops, it sets the stage for the next phase, development of the organizational structure and accompanying systems that allow for successful execution of the strategy. Alfred Chandler (1962) observed the sequence in a number of organizations and concluded that strategy is the necessary precursor to structure.

What actually happens? As the strategy of the firm (whether articulated as such or not) becomes apparent, the need for organizational capabilities and management processes to carry out the strategic activities also becomes apparent. A strategy heavily dependent upon direct customer marketing and frequent customer contact must develop both personnel and management systems that can effectively perform those activities, for instance. New personnel are hired or (in the case of existing employees) assigned specific responsibility. Information systems follow, to provide information necessary to guide action and to measure performance against newly developed goals.

Let's look at a different example. A business, founded by a former U.S Coast Guard officer, had provided training to individuals who wished to pass U.S. Coast Guard licensing examinations. Encompassing anything from operation of a small vessel to highly specialized posts (including pilots) of larger vessels, the U.S Coast guard requires licensing of individuals. A tug boat operator pushing a string of barges loaded with chemicals up the Mississippi River, for instance, must know how to navigate the river's waters and must have received certification and a license to do so. This company set up classrooms, equipped with simulators and other navigational equipment, to train individuals. They also set up trial examinations so that the individual could take "trial tests" and become proficient not only in the knowledge but in the actual process of test-taking.

Recognizing their capabilities in training individuals to pass licensing exams (part of which was the design of the education process and part to develop trial exams that closely approximated the real exams), they expanded their strategy to offer exam training in other fields. Unlike Coast Guard exams, though, instead of classroom instructors the new areas needed a call center staffed with individuals who could coach the learner through the process of preparation for the exam.

The new strategy brought new challenges, especially organizational and systems. Although a few core activities were similar (researching and producing trial examinations, designing courses of study), an entirely new set of activities (a call center) had been added and, with them, a new set of organizational relationships and systems. The strategy was clear, to expand existing capabilities (constructing study programs and trial tests), but the activities were not. They had to be learned, mostly by trial and error and long hours of hard work, and a new organizational structure (with two divisions and a call center) had to be developed.

In this phase, like in the previous phases, a new set of learning and development must take place. It must build upon the platform set by the previous phase, and it must advance the growth into a necessary but new and unfamiliar realm. Once again, the entrepreneur may long for the past, with familiar problems and issues and where some sense of mastery and proficiency had existed. Like any phase of growth, however, unfamiliar issues have to be addressed and new skills have to be developed. This time, though, the skills lie more in the area of management, and the problems lie in design of an organization and development of systems needed to manage higher levels of complexity with a strategic focus.

### **Phase 6: Governance**

As the venture continues to mature, it reaches the next phase. With proficiency in dealing with strategy, organization and systems, a broader view of the enterprise and its future become possible. At that point, a new type of resource becomes necessary. The entrepreneur seeks the experience and networks of other experienced executives. The knowledge and connections that these people can bring become useful in moving the venture forward into new market areas or in seeking new opportunities.

Figure 6 illustrates the processes and development of Phase 5, *Organization and Systems*.

## **Figure 6**

### Phase 5: Organizational Structure and Systems

- Entrepreneur:
  - Envisions organization as a competitive tool
  - Develops skills at leading toward strategic goals
- Enterprise:
  - Develops specialized responsibilities and performance measurement systems to correspond with competition.
  - Develops processes to explore defined marketplace opportunities
  - Gains ability to work in a focused way toward a marketplace goal

First, these individuals provide a “reality check” for the entrepreneur. An idea for a new direction for the business may seem plausible, but it should pass the test of consideration by an experienced professional who knows and understands the business well. They may also provide connections to other organizations—a supplier, a venture partner or connection to a new market. They provide the entrepreneur with access to a wider view.

Currently the literature on corporate governance sees two functions for the board of directors of a corporation. One is to manage *agency* issues. These issues concern oversight of the behavior of a company’s management, to make sure that they act in the best interests of the owners of the firm (usually its shareholders). A second function, discussed extensively in the current academic literature, is sometimes referred to as providing *capital diversity*. (For an explanation of the difference between agency and resource, see Lynall, Golden and Hillman, 2003)

For the entrepreneurial venture, concerns regarding agency are typically minimal. The manager usually is also the owner or at least has an identity of interest with other owners. There is, consequently, little or no need for an oversight function to detect and manage agency problems. Consequently, members of an advisory board are typically accountable only to the entrepreneur, not to external shareholders.

### **Phase 7: Financing**

Up to this point we have not addressed the issue of financing, the topic that dominates most new venture courses. The reason is that, in the earlier stages, most enterprises are either self-financing or they are financed through some form of personally secured debt or personal sources.

Figure 7 illustrates the processes and development of Phase 6, *Governance*. It contains only a partial listing of the possible results of development of effective firm governance at this stage.

### **Figure 7**

#### Phase 6: Governance

- Entrepreneur
  - Recruits and begins to use outsiders to assess major initiatives.
  - Begins using others to create high-level networks
  - Shifts from *leader* to *director*
- Enterprise:
  - Develops high-level systems for assessing strategic performance
  - Efficiency and effectiveness measures and awareness
  - Readiness to move in concert toward new direction

As the business moves past its initial stages, it may reach the point where further growth potential cannot be realized through internally generated funds (either because of needed assets or to finance a negative cash cycle). It must seek external sources of funding. When this occurs, a number of external sources may be possible. Nearly all such sources, however, insist upon having a share of ownership (in some form) as part of the “deal” to provide needed financing.

When this happens, the *dominant management* issue may change significantly. Besides conformance to debt covenants, changes in strategy or significant changes in organizational structure—including hiring or firing key employees—may also require permission of the outside investor. Actual direction and control of operational activities may pass to the investor through a corporate governance mechanism as well.

### **Phase 8: Wealth preservation**

Up to this point, we have described a process of growth of the enterprise and, along with it, the growth of the entrepreneur as leader and manager. Each phase has set the stage for the next phase of growth to follow. In each stage, unique problems had to be solved, and their mastery required attention to the issues and the problems of the phase.

There comes a time, perhaps in the life of the entrepreneur or at a point in the growth of the enterprise, when the entrepreneur’s focus must turn to preserving any personal wealth that has been built within the business. By definition, the wealth contained within a small business is illiquid. It has been frozen in place through a process of investment in needed assets or in work to build a sustainable position in a competitive environment. It cannot be withdrawn without causing difficulty for the business.

Figure 8 provides a partial listing of the processes and development occurring in Phase 7, *Financing*.

## Figure 8

### Phase 7: Financing

- Entrepreneur:
  - Preservation of personal wealth
  - Risk control
  - Readies for others to lead
- Enterprise:
  - “Institutionalized “ processes to control resource utilization.
  - Regular review cycles with clear performance criteria.

Primarily through the exchange of illiquid value for some kind of liquidity, including cash, an amortizing loan secured by the assets of the business, or stock in a public corporation (including the possibility of that being the business itself), the entrepreneur will gain some liquidity and opportunity to take out some of the value that had accumulated in the business. In exchange, some degree of control will have been given up, up to complete transfer in the case of an outright sale.

Figure 9 illustrates the processes and results of Phase 8, *Wealth Preservation*.

## Figure 9

### Phase 8: Wealth Preservation

- Entrepreneur:
  - Readiness to exchange control for liquidity
  - Emotional separation from daily activities if the organization.
  - Develops ability to “steward” organizational resources for others
- Enterprise:
  - Formal processes
  - Transparency and visibility of goals and work being done, especially to key outsiders.
  - Clarity of performance measures
  - Focus on discreet organizational objectives

### Implications

This paper has presented a model that can be used to understand internal processes of growth – what *actually happens* as an entrepreneurial venture and the entrepreneur grow. It follows from prior work that identified growth processes and stages of growth but were not applied to the early period of growth. Use of this model should improve understanding of what happens in the early part of the life of an entrepreneurial venture.

### Concluding Thoughts: Leadership

Yet missing from this picture, though, is a critical element. That is the role of the entrepreneur as the leader through each stage. Like the venture, the entrepreneur must also go through stages of learning and mastery, each building on the prior one. As each new set of problems are solved and as each new set of concerns are mastered, the entrepreneur grows in knowledge and maturity. Like what happens with the enterprise, each step builds upon the successful achievement of the last. Each bit of mastery leads not to comfort but to the challenges of the next phase.

A quote from Sidney Harmon's sharing of a remarkable life as an entrepreneur and leader tell much of the story:

*The leader should be the evangelist.* Believing in the mission, committing to honorable, ethical conduct, and wishing for creative products in marketing are not enough. The leader must sell those views restlessly and relentlessly. (Harman 2003: 62)

As a conclusion, the last point to make is that the entire process of developing an entrepreneurial venture is a process of growth. Solving the problems and developing mastery of the processes of one phase lead only to facing those of the next. Each phase must be approached by the entrepreneur with an open mind and eagerness for the challenge it presents. Taking the words of Larry Greiner (1972), "Clearly, there is still much to learn about processes of development in organizations." Hopefully, this paper adds to the quest outlined by Prof. Greiner over three decades ago.

### References

- Adizes, I. (1979) "Organizational Passages: Diagnosing and Treating Life Cycle Problems in Organizations." *Organizational Dynamics*. Summer 1979: 3-24
- Chandler, A. D. (1962) *Strategy and structure: Chapters in the History of the American Industrial Enterprise*. Cambridge, MA: MIT Press.
- Dodge, H. R., & Robbins, J. E. (1992). "An empirical investigation of the organizational life cycle model for small business development and survival." *Journal of Small Business Management*, 30(1), 27-27.
- Downs, A. (1967) "The Life Cycle of Bureaus." In Downs, Anthony, *Inside Bureaucracy*, San Francisco, CA: Little, Brown and Co. and Rand Corporation: 296-309
- Greiner, L. E. (1972), "Evolution and revolution as organizations grow." *Harvard Business Review*, 50 (4), 37-45. Re-published: (May-June 1998) *Harvard Business Review*, 76, 55-68.
- Hanks, S., Watson, C., Jansen, E., & Chandler, G. (1993). "Tightening the life cycle construct: A taxonomic study of growth stage configurations in high-technology organizations." *Entrepreneurship Theory & Practice*, 2, 5-29.
- Harman, S. (2003). *Mind Your Own Business*. New York: Doubleday (Currency Book, Div. Random House)
- Jawahar, I. M. & McLaughlin, G. L. (2001) "Toward a descriptive stakeholder theory: An organizational life cycle approach." *Academy of Management. The Academy of Management Review* 26. 3 (July 2001): 397-414.
- Kimberly, J.R. (1979) "Issues in the Creation of Organizations: Initiation, Innovation, and Institutionalization." *Academy of Management Journal* 22: 437-457
- Kohlberg, L. (1981). *Essays on moral development. Vol. 1. The philosophy of moral development*. San Francisco: Harper & Row.
- Lavoie, D. and Culbert, S.A. (1978) "Stages in Organization and Development." *Human Relations.*" 31: 417-438
- Lyden, F.J. (1975) "Using Parsons' Functional Analysis in the Study of Public Organizations." *Administrative Science Quarterly*. 20: 59-70
- Magretta, J. (2002) *What Management Is*. New York: Free Press.
- Miles, R.H. (1980) "The Role of Organizational Learning in the Early Creation and Development of Organizations." In J.R. Kimberley and R.H. Miles. *The Organizational Life Cycle*. San Francisco, CA: Josey-Bass
- Neal, J.A. (1978) *The Life Cycles of an Alternative Organization*. Boston, MA: Intercollegiate Case Clearing House
- Penrose, E. T. (1959) *The Theory of the Growth of the Firm*. Oxford: Oxford University Press.

- Prahalad, C.K. and Hamel, G. (1990) "The Core Competence of the Corporation." *Harvard Business Review* 68. 3 (May-June): 79-91
- Porter, M. (1996) "What is Strategy?" *Harvard Business Review* 74. 6 (Nov-Dec): 61-78.
- Porter, M. and Villar, V. (1985) "How information Gives You Competitive Advantage." *Harvard Business Review* 63. 4 (July-Aug): 149-160
- Quinn, R. E. and Cameron, K. (1983) "Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence." *Management Science* 29. 1 (Jan): 33
- Quinn, R. E., & Rohrbaugh, J. (1983). "A spatial model of effectiveness criteria: Towards a competing values approach to organizational analysis." *Management Science*, 29(3), 363-363.
- Rugman, A.M. and Verbeke, A. (2002) "Edith Penrose's contribution to the resource-based view of strategic management." *Strategic Management Journal* 23. 8: 769-780
- Roche, O.P. (2008) *Board Role and Composition within the Organizational Life Cycle*. Montreal: McGill University, Faculty of Graduate Studies and Research (Ph.D. Thesis: October 2008)
- Scott, B.R. (1971) *Stages of Corporate Development—Part 1*. Case No. 9-371-294. Boston, MA: Intercollegiate Case Clearing House.

# **The Impact of Foreign Direct Investment (FDI) on Women's Entrepreneurship**

Kaustav Misra, Saginaw Valley State University  
Esra Memili, University of North Carolina at Greensboro  
Dianne Welsh, University of North Carolina at Greensboro  
Hanqing Fang, Mississippi State University

## **Abstract**

Women entrepreneurs around the world have increasingly contributed to innovation, employment, and wealth creation (Brush & Cooper, 2012; Brush, Bruin, & Welter, 2009). Studies suggest that foreign direct investment can be an important determinant of entrepreneurship in general. However, the link between foreign ventures and women entrepreneurs remains under-researched. Therefore, we suggest that the presence of foreign ventures affects women's entrepreneurship. We develop our model on a cross-section of data encompassing 36 countries in 2006. The results show that foreign direct investment and women's entrepreneurship have an inverted u-shaped relationship. Implications and further research are discussed.

## **Introduction**

Research suggests that entrepreneurship is the driver of economic development and growth (Acs, 2006; Audretsch & Acs, 1994; Schumpeter, 1934). Businesses and institutions can provide a nurturing environment for venture start-ups and their growth (Audretsch & Lehman, 2005; Sternberg & Rocha, 2007). Accordingly, studies show that the foreign ventures may be influential on entrepreneurship and economic growth in host countries (Ayyagari & Kosova, 2006; Borensztein, De Gregorio & Lee, 1998).

Despite the general agreement on the effects of foreign ventures on entrepreneurship in general, the impact of foreign direct investment on women's entrepreneurship remains under explored, particularly since women's entrepreneurship itself largely lacks research attention (Brush & Cooper, 2012). Women entrepreneurs' businesses are one of the fastest growing entrepreneurial populations in the world (Brush & Cooper, 2012). Women make a substantial positive impact on innovation, employment, and wealth generation across countries through their entrepreneurial successes (Brush, Carter, Gatewood, Greene, & Hart, 2006). Research suggests that women's entrepreneurship appears to be opportunity-based in developed economies and necessity-based in less developed economies (Brush & Cooper, 2012). As a result, women entrepreneurs generally make significant impact on economies in regards to job creation and innovations.

Owing to the women's remarkable contributions to world economies, examining the determinants of women's entrepreneurship is crucial both theoretically and practically. Research mostly identifies the individual, socio-cultural, economic, and political factors affecting women's entrepreneurship around the world (e.g. Ahmad, 2011; Brush & Cooper, 2012; Roomi & Parrott, 2008, Welsh & Dragusin, 2010). Foreign direct investment may play an important role in women's entrepreneurship in host countries as well. However, to date, this relationship is unclear both in theory and practice. We suggest that foreign direct investment may influence women's entrepreneurship. Furthermore, we expect a more complex relationship than a linear one, which is an inverted u-shaped relationship. Accordingly, we develop and test our model on a panel data of 36 countries in 2006. As we expected, the results show that foreign direct investment has an inverted u-shaped relationship with women's entrepreneurship. This paper contributes to the entrepreneurship literature in a variety of ways. First, it explores a research topic which has both theoretical and practical significance to world economies. Second, this article demonstrates the impact of the presence of foreign ventures on women's entrepreneurship. The presence of foreign ventures can influence women's entrepreneurship in a complex manner, both positively (up to an optimum level) and negatively (after an optimum level). Third, the findings of this article have significant implications for policy makers. As this

paper illustrates, the presence of foreign ventures influences women's entrepreneurial activities. Therefore, countries wanting to encourage the formation and growth of women's entrepreneurship should pay close attention to the foreign direct investment phenomenon as well.

We begin with providing an overview of foreign direct investment and women's entrepreneurship. Then, we develop our hypothesis. Next, we present the methodology and the empirical findings. In the last section, we discuss the results and implications for future research.

### **Foreign Direct Investment and Women's Entrepreneurship**

Foreign ventures tend to have positive impact on economic development through enhancing local firm productivity (Hu & Jefferson, 2001; Javorcik, 2004), leading to new market development, facilitating the mobility of human capital (Cheung & Lin, 2004; Fosfuri, Motta & Ronde, 2001), enabling knowledge spillover (Borensztein, De Gregorio & Lee, 1998; Branstetter, 2000; Fang, Memili & Chrisman, 2012), and reducing the unemployment rate (Baconier & Ekholm, 2000; Lipsey 1995). However, the link between foreign direct investment and women's entrepreneurship is not clear in theory and practice yet, although women entrepreneurs play a critical role in world economies (Brush & Cooper, 2012) and likely to be influenced by foreign direct investment.

Foreign direct investment in an economy may provide learning opportunities regarding foreign markets, such as quality criterion, market structure, and consumer preferences to the host country's nascent entrepreneurs (Chung, Mitchell & Yeung, 1996; Blomstrom, Kokko & Zejan, 1995; Branstetter, 2000). Moreover, purchasing goods and services from incumbent foreign firms or joint ventures within national boundaries may provide opportunities to learn advanced technologies, which accelerate the technological innovations embodied in the development of goods to meet local demands (Coe & Helpman, 1995; Keller, 1998, 2002, 2004).

While explicit knowledge is likely to be flowed by international trade or transactions with foreign-owned and/or joint ventures in an economy, the acquisition of implicit knowledge is comparatively difficult to pass beyond national boundaries (Audretsch & Feldman, 1996; Branstetter, 2001; Si & Bruton, 1999, 2003, 2005). Implicit knowledge, such as managerial experience and technological "know-how" are not always recordable (Polanyi, 1967; Nelson & Winter, 1982). Joint ventures, owned by both foreign and local entities, may provide a platform that facilitates the spillover of implicit knowledge (Bartlett & Ghoshal, 1989; Liu *et al.*, 2010). Indeed, social networks may accelerate the transmission of implicit knowledge (Bartlett & Ghoshal, 1989; Kogut & Zander, 1993; Nohria & Ghoshal, 1997). Within the framework of trustworthy closely linked networks, the transaction cost of knowledge transmission associated with opportunistic behaviors may be also reduced (Williamson, 1985; Ethier, 1986; Teece, 1986).

Studies identify women entrepreneurs with unique networking skills owing to their well-connected strong personal and family ties (e.g. Dragusin, 2007; Salmenniemi, Karhunen, & Kosonen, 2011). This can enhance women entrepreneurs' quick learning from activities of the foreign direct investment in their countries and build upon that in their own entrepreneurial activities.

Additionally, foreign direct investment can provide employment opportunities primarily to the male job searchers particularly in developing and under-developed countries with patriarchal tendencies. Indeed, studies show that foreign ventures can reap the benefits of cost reduction in a host economy through access to local labors and resources (Arndt, 1997; Burda & Dluhosch, 2002; Hummels, 2007). Employing locals in under-developed regions can substantially reduce the operational costs of production (Arndt, 1997; Burda & Dluhosch, 2002), while recruiting locals in advertising, broadcasting, promotion and customer service may

also reduce the cost associated with new market developments (Agrawal, 1995; Steger, 2002). In return, the host countries can benefit from a decline in the unemployment rate. In developing and under-developed countries, male job searchers may have an advantage over women in joint ventures' hiring. This can leave entrepreneurial opportunities to be identified and captured by the women nascent entrepreneurs who often do not have equal opportunities in job markets. Moreover, owing to religious and/or cultural limitations, women's employment at foreign ventures may not be the norm. This can motivate women to start up their own businesses.

Nevertheless, after an optimum number of foreign ventures in a host country, the presence of a higher number of foreign ventures can increase the competition and small businesses owned by women entrepreneurs may not have the means and capacity to be able to compete, forcing them to exit or fail. Additionally, after a certain number of foreign ventures, the increasing volume of foreign direct investment may require even more labor than the available male population. This can lead to the allowance and acceptance of more women in the work force.

Given entrepreneurial versus job opportunities, the entrepreneur is expected to compare the opportunity cost of being self-employed with expected entrepreneurial benefits (Johnson, 1986; Shane & Venkataraman, 2000; Venkataraman, 1997). An individual prefers exploiting entrepreneurial opportunities only if he/she perceives that the entrepreneurial benefit he/she will receive exceeds the opportunity cost (Amit, Muller & Cockburn., 1995; Shane, 2003). When a potential entrepreneur has no existing job, the opportunity cost of entrepreneurship is low or zero. This can increase the likelihood of engaging in entrepreneurship (Storey, 1991). Thus, at the macro level, a higher level of unemployment can cause a higher level of entrepreneurship, or so-called "refugee effect" (i.e., unemployment push) suggested by past studies (Hamilton, 1989; Reynolds, Miller & Maki, 1995; Reynolds, Storey & Westhead, 1994). However, when there is an attractive job opportunity provided by a foreign venture, it is likely that the individuals would prefer the employment at the foreign venture, rather than being self-employed. If/when such opportunity appears because of increased number of foreign ventures, women entrepreneurs are also likely to join the foreign ventures' work force rather than being self-employed.

Therefore, we expect an inverted u-shaped relationship between foreign direct investment and women's entrepreneurship.

*Hypothesis 1. Foreign direct investment has an inverted u-shaped relationship with women's entrepreneurship in developing and under-developed countries, such that foreign direct investment will have positive effects on women's entrepreneurship up to an optimum level and after an optimum level, foreign direct investment will have negative effects on women's entrepreneurship.*

## **Methods**

### *Data*

In this study, data are collected from the World Bank Indicators (WBI) (2008), which is one of the largest data sources for the international studies. For the analysis of our hypothesis, we employed cross-sectional data for 36 countries for the year 2006 after dropping observations with missing values. The countries include Angola, Argentina, Bolivia, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chile, Colombia, Congo, Dem. Republic, Ecuador, El Salvador, Ethiopia, The Gambia, Guatemala, Guinea, Guinea-Bissau, Honduras, India, Jordan, Lebanon, Malawi, Mauritania, Mexico, Namibia, Nicaragua, Niger, Panama, Paraguay, Peru, Rwanda, Swaziland, Tanzania, Uganda, and Uruguay. This sample is representative of the population of economies since it includes developing and under-developed countries. There is no

particular intention to use neither these countries nor the specified year, as it is driven by the international data availability. Please visit the WBI 2008 data set for more information about the data and variables at <http://data.worldbank.org/topic/labor-and-social-protection>.

### *Variables*

#### *Dependent variable*

***Female ownership:*** We used the *firms with female participation in ownership (% of firms)* as the dependent variable in our empirical model. This variable measures the percentage of female participation in firm ownership. On average, about 30.18 percent firms have female ownership participation, but the range varies from 9.11 percent to 44.76 percent.

#### *Control variables*

***Rural population:*** This variable is used in the model as a control variable. The percentage of the total population in a country that are living in the rural area is defined as rural population. On average, 50.61 percent of the total population is living in a rural area, but there are countries where the size of the rural population is very small (7.90 percent of total population) and also, there countries with the size of the rural population is large (89.68 percent of total population).

***Rigidity of employment:*** Another set of control variables we included consists of the rigidity of the employment index, trade as a percentage of GDP, and gross domestic product per capita (constant 2,000 USD). World Bank developed an index to measure *rigidity of employment*. This index measures the regulation of employment in terms of hiring and firing of workers and the rigidity of working hours, which ranges from 0 to 100, with 0 being the least rigid regulations and 100 being the most rigid regulations. In our data set, it varies from 7 to 78, with the mean of 43.33, which indicates there are some countries where it is very hard to get employed compared to others.

***Gross domestic product (GDP) per capita:*** The next control variable is *gross domestic product per capita* (constant 2,000 USD), which indicates a country's economic well-being. Each country tends to differ substantially in terms of their economic status. This variable is measured as gross domestic product divided by the midyear population. This variable provides information about economic performance over time. However, the well-being of the population also depends on other factors. For example, these include the amount of leisure time, environmental quality, crime rate, and health. Nevertheless, these variables are not readily available to the public. The annual mean gross domestic product per capita is 1,937.38 dollars per person and it ranges from 90.77 dollars to 8,692.54 dollars per person. Hence, there is a high level of variation among the employed countries in terms of their well-being (GDP per capita).

We have included two variables, time and cost to create ventures, to explain the nature of country's business environment. The time variable measures the time that is required for an entrepreneur to start up a business. We find, on average, it takes about 54 days to form a new business, but the range varies from 16 days to 233 days regardless of the gender of entrepreneurs. Similarly, the cost of business start-up procedures is about 125.61 percent of Gross National Income (GNI) per capita on average, ranging from 9.8 to 498.2 percent of GNI per capita.

***Female participation in the labor force:*** The female labor force participation is an indicator of a country's progressiveness. It is measured as the percentage of women in the labor force. In recent times, women have increasingly participated in the labor force, which has been driving employment trends and minimizing the gender gap in the workplace. The female participation rate in our sample is 60 percent, and varies from 29.50 percent to 93 percent.

**Aid per capita:** This control variable is used to predict the dependent variable. In 2006, the countries in this sample received about 49.91 US current dollars per person and this ranged from 1.24 dollars to 266.62 dollars per person.

**Exports of goods and services:** Another independent variable we examined is *exports*. The World Bank defines this variable as the net value of exports of goods and services of a country to the rest of the world as a percentage of GDP. The mean percentage of exported goods and services in the year 2006 for our sample is 34.50 percent and varies from 10.77 percent to 81.20 percent.

#### Independent variables

**Foreign direct investment (FDI):** The last independent variable is net inflow of foreign direct investment. This variable indicates the interest of foreign investors in a particular country. The World Bank collected this variable as a percentage of GDP for the year 2006. On average, a country from the employed sample received FDI about 4.56 percent of GDP, and it ranged from -0.13 to 22.83 percent of GDP. The negative simply means that outflows of investments exceed inflows. In our sample, countries like Angola and Mauritania outflows of investments exceeded inflows and therefore have a negative sign.

### Methodology

To analyze our hypothesis we gathered only one year data for this paper. Hence, the obvious econometric model of Ordinary Least Square is employed to determine the relationship between dependent and independent variables. The percent of firms with female ownership participation in a country is employed as the dependent variable and the explanatory variables include percentage of rural population, time required to open a business, cost of opening a business, gross domestic product per capita, employment rigidity index, percentage of female population in the labor force, percent of exported goods and services, aid per capita, and foreign direct investment.

### Results

Table 1 presents the regression results. We employed the firms with female participation in ownership as the dependent variable in this analysis.

Table 1. Summary Statistics and Correlation

|   | Mean    | Std. Dev | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9    | 10   |
|---|---------|----------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| Firms with female participation in ownership        | 30.18   | 9.86     | 1.00  |       |       |       |       |       |       |       |      |      |
| Percent of rural population (% of total pop.)       | 50.62   | 24.74    | -0.28 | 1.00  |       |       |       |       |       |       |      |      |
| Cost of starting a business (\$)                    | 125.61  | 127.74   | -0.42 | 0.40  | 1.00  |       |       |       |       |       |      |      |
| Time required to open a business (days)             | 53.75   | 43.57    | -0.11 | 0.10  | 0.40  | 1.00  |       |       |       |       |      |      |
| GDP per capita (\$)                                 | 1937.38 | 2243.54  | 0.21  | -0.79 | -0.50 | -0.17 | 1.00  |       |       |       |      |      |
| Employment index                                    | 43.33   | 19.51    | -0.18 | 0.20  | 0.52  | 0.40  | -0.30 | 1.00  |       |       |      |      |
| Percent of female population in the labor force (%) | 60      | 17.56    | 0.05  | 0.51  | 0.40  | 0.01  | -0.36 | 0.39  | 1.00  |       |      |      |
| Exports of goods and services (% of GDP)            | 34.50   | 18.61    | -0.06 | -0.25 | 0.05  | 0.33  | 0.17  | 0.03  | -0.34 | 1.00  |      |      |
| Aid per capita (\$)                                 | 49.91   | 53.15    | 0.18  | -0.03 | -0.06 | -0.02 | -0.18 | -0.11 | -0.33 | -0.18 | 1.00 |      |
| Foreign direct investment (% of GDP)                | 4.57    | 5.41     | -0.10 | -0.40 | -0.12 | 0.04  | 0.19  | -0.19 | -0.39 | 0.26  | 0.37 | 1.00 |

In the first model, we ran the analyses with control variables. Percent of rural population and cost of starting a business are the only significant variables in this model. In the second pooled model, we ran the analyses with control and independent variables. Both percent of rural population and the cost of starting a business are significant in the pooled model and in the expected direction. The percent of rural population is significant at the 10 percent level, which indicates that while keeping all other variables in the model constant, percent of female owners decreased as the total number of rural population in a country increased. Similarly, percent of female owners decreases as the cost of starting a business increases and this variable is significant at the 10 percent level as well. So countries with higher rural populations and higher costs of starting a business minimize the number of women-owned business startups.

The female business ownership participation rates also depend upon the employment conditions in a country. This relationship is negative and significant at the 5 percent level, which means that female business ownership participation rates significantly increase as employment conditions improve. Hence, while keeping other variables constant, better employment conditions increase percentage of female ownership in businesses.

The next significant relationship involves the female labor force participation rate.. This variable enters positively into the equation, which means that increasing female participation into the labor force increases the interest of female entrepreneurs to participate in a business or at least it increases their chances to include themselves in businesses.

Table 2. Results: Effects of FDI on Female Participation in Ownership: OLS Estimates, Heteroskeasticity-corrected

| Variable  | Control Model     | Pooled Model       |
|---|-------------------|--------------------|
| <b>Dependent variable:</b> Firms with female participation in ownership |                   |                    |
| Constant  | 16.08<br>(25.81)  | 37.33<br>(26.39)   |
| Percent of rural population   | -0.15<br>(0.11)   | -0.26*<br>(0.13)   |
| Time required to open a business  | 0.03<br>(0.03)    | -0.01<br>(0.03)    |
| Cost of starting a business   | -0.03**<br>(0.01) | -0.03*<br>(0.01)   |
| Log-GDP per capita  | 0.08<br>(6.35)    | -5.17<br>(6.77)    |
| Employment index  | -0.14**<br>(0.06) | -0.15**<br>(0.07)  |
| Percent of female population in the labor force                         | 0.38***<br>(0.10) | 0.33***<br>(0.11)  |
| Aid per capita  | 0.09***<br>(0.02) | 0.08***<br>(0.02)  |
| Exports of goods and services   | 0.12<br>(0.09)    | 0.18*<br>(0.09)    |
| Foreign direct investment   |                   | 1.56**<br>(0.64)   |
| Square Foreign direct investment  |                   | -0.12***<br>(0.03) |
| Adjusted R-square   | 0.64              | 0.98               |

Asterisks (\*, \*\*, \*\*\*) denote significance at the 10, 5 and 1 percent level, respectively.

The exports variable is also significantly (at the 5 percent level) related to the dependent variable. A positive relationship seems to exist between export and the percentage of female ownership, which is in the predicted direction. This means that an increase in exports will also increase the percentage of female business owners, while holding all other variables in the model constant.

The rest of the explanatory variables, including aid per capita and FDI, are significant. Both of these variables enter into the model with a positive sign, which indicates that higher per capita aid and FDI will increase the number of female business owners, while keeping all other variables in the model constant. Interestingly, we add squared FDI variable in our empirical model to investigate the hypothesized inverted u-shaped relationship and that variable also significant with the expected sign. This finding supports our hypothesis suggesting an inverted U-shaped relationship. That is, to a certain extent, the net inflow of FDI increases the number of female business owners, but after a point, FDI inflow might negatively affect the female business owners in a country.

Variance inflation factors (VIF) are calculated and did not indicate any multi-collinearity problem in the dataset since the VIFs did not exceed ten. The regression figures in this table are estimated using the OLS estimation technique and we used the Wald test to check for heteroskedasticity and we corrected accordingly.

### **Implications**

More future research is needed concerning women entrepreneurs around the world. For example, how and why women owned businesses succeed or fail is also worth investigating. Therefore, cross-country longitudinal studies examining the key success/failure factors of women entrepreneurs will be helpful to enlighten theory, practice, and policy making. Additionally, research needs to be done concerning the most effective means to create public-private partnerships that empower women entrepreneurs and propel their businesses. This should also be investigated with funding specifically in mind. Optimal finance options that encourage women entrepreneurs to not only launch their business, but grow their businesses is needed. Oftentimes in emerging countries loans are minimal and may provide basic start-up costs, but getting these businesses to the next level requires investment that seems to be lacking from private/public partnerships. While this may vary from country-to-country in terms of acceptance, outreach, partners, and logic, further investigation may uncover the formulas for success for specific countries, regions, ethnicities, and business types.

### **Discussion and Conclusion**

Studies generally investigate the individual, socio-cultural, economic, and political factors affecting women's entrepreneurship around the world (e.g. Ahmad, 2011; Brush & Cooper, 2012; Roomi & Parrott, 2008; Welsh & Dragusin, 2010). However, to our knowledge, the impact of foreign direct investment on women's entrepreneurship in host countries has not been investigated. Our empirical results provide support that the women's entrepreneurship in developing and under-developed countries may be driven by the presence of foreign ventures up to an optimum level. However, after an optimum number of foreign ventures, the number of women owned businesses decreases. This finding can assist scholars, practitioners, and policy makers better understand how the existence of foreign ventures may foster favorable conditions for local women entrepreneurs to identify and capture entrepreneurial opportunities up to an optimum level and then after an optimum number of foreign ventures, the women's entrepreneurship is affected negatively by foreign ventures. Accordingly, the effect of foreign ventures on women's entrepreneurship is more complex (i.e. curvilinear), rather than a simple linear one.

Moreover, there has been a tendency to investigate the direct effects of foreign direct investment on entrepreneurship in general while the relationship between foreign ventures and women's entrepreneurship is worth investigating owing to women's critical role in entrepreneurship across countries. We suggest that foreign ventures influence women's entrepreneurship in developing and under developed countries and this relationship is a u-shaped one. We test our models on a cross sectional data of 36 countries for the year 2006. The results support our hypothesis. Thus, foreign direct investment is found to impact the women's entrepreneurship in developing and under developed countries. We hope our study will spark further research concerning women entrepreneurs.

## References

- Acs, Z. J. (2006). How is entrepreneurship good for economic growth? *Innovations: Technology, Governance, Globalization*, 1(1), 97-107.
- Agrawal, M. (1995). Review of a 40-year debate in international advertising: practitioner and academician perspectives to the standardization/adaptation issue. *International Marketing Review*, 12(1), 26-48.
- Ahmad, S. Z. (2011). Evidence of the characteristics of women entrepreneurs in the kingdom of Saudi Arabia: An empirical investigation. *International Journal of Gender and Entrepreneurship*, 3(2), 123-143.
- Amit, R., Muller, E., & Cockburn, I. (1995). Opportunity cost and entrepreneurial activities. *Journal of Business Venturing*, 10(2), 95-106.
- Arndt, S. W. (1997). Globalization and the open economy. *The North American Journal of Economics and Finance*, 8(1), 71-79.
- Audretsch, D. B., & Acs, Z. J. (1994). New firm startups, technology, and macro-economic fluctuations. *Small Business Economics*, 6, 439-449.
- Audretsch, D. B., & Feldman, M. P. (1996). R&D spillovers and the geography of innovation and production. *American Economic Review*, 86(3), 630-640.
- Audretsch, D. B., & Lehman, E. (2005). Does the knowledge spillover theory of entrepreneurship hold for regions? *Research Policy*, 34, 1191-1202.
- Ayyagari, M., & Kosová, R. (2006). Does FDI facilitate domestic entrepreneurship? Evidence from the Czech Republic. Working paper. CERGE-EI Research Seminar held on.
- Bartlett, C. A., & Ghoshal, S. (1989). *Managing Across Borders: The Transnational Solution*. Boston, MA: Harvard Business School Press.
- Blomstrom, M., Kokko, A. & Zejan, M. (1995). Host country competition and technology transfer by multinationals. NBER working paper no. 4131.
- Borensztein, E., De Gregorio, J., & Lee, J. W. (1998). How does foreign direct investment affect economic growth? *Journal of International Economics*, 45, 115-135.
- Braconier, H., & Ekholm, K. (2000). Swedish multinationals and competition from high and low-wage locations. *Review of International Economics*, 8: 448-461.
- Branstetter, L. G. (2000). Is foreign direct investment a channel of knowledge spillovers? Evidence from Japan's FDI in the United States. NBER Working Paper No. 8015.
- Branstetter, L. G. (2001). Are knowledge spillovers international or intranational in scope? *Journal of International Economics*, 53(1), 53-79.
- Brush, C., Carter, N., Greene, P., Gatewood, E., & Hart, M. (2006). The use of bootstrapping by women entrepreneurs in positioning for growth. *Venture Capital Journal*, 8:2, 1-19.
- Brush, C. G., & Cooper, S. Y. (2012). Female entrepreneurship and economic development: an international perspective. *Entrepreneurship and Regional Development: An International Journal*, 24(1-2), 1-6.
- Brush, C. G., deBruin, A., and Welter, F. (2009). A gender-aware framework for women's entrepreneurship. *International Journal of Gender and Entrepreneurship*, 1(1), 8-24.

- Burda, M. C., & Dluhosch, B. (2002). Cost competition, fragmentation, and globalization. *Review of International Economics*, 10(3), 424-441.
- Cheung, K., & Lin, P. (2004). Spillover effects of FDI on innovation in China: evidence from the provincial data. *China Economic Review*, 15, 25-44.
- Chung, W., Mitchell, W., & Yeung, B. (1996). Foreign direct investment and host country productivity: the case of the American automotive components industry. Working paper, University of Michigan, School of Business Administration.
- Coe, D., & Helpman, E. (1995). International R&D spillovers, *European Economic Review* 39(5), 859-887.
- Dragusin, M. (2007). National and regional women entrepreneurs' networks. *Romanian Journal of Regional Science*, 1(1), 81-90.
- Ethier, W. (1986). The multinational firm. *Quarterly Journal of Economics*, 101(4), 805-833.
- Fang, H., Memili, E., & Chrisman, J. J. (2012). The structural effects of foreign ventures on domestic entrepreneurship: A cross-country panel data analysis. Paper presented at Academy of Management 2012 meeting, Boston, MA.
- Fosfuri, A., Motta, M., & Rønde, T. (2001). Foreign direct investment and spillovers through workers' mobility. *Journal of International Economics*, 53: 205-222.
- Hamilton, R. (1989). Unemployment and business formation rates: reconciling time series and cross section evidence, *Environment and Planning*, 21, 249-255.
- Hu, A., & Jefferson, G. (2001). *FDI, technological innovation, and spillover: evidence from large and medium size Chinese enterprises*. Waltham, MA: Brandeis University.
- Hummels, D. (2007). Transactional costs and international trade in the era of globalization. *Journal of Economic Perspectives*, 21(3), 131-154.
- Javorcik, B. S. (2004). Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages. *The American Economic Review*, 94, 605-627.
- Johnson, P. (1986). *New firms: an economic perspective*. London, England: Allen and Unwin.
- Keller, W. (1998). Are international R&D spillovers trade-related? Analyzing spillovers among randomly matched trade partners. *European Economic Review* 42, 1469-81.
- Keller, W. (2002). Geographic localization of international technology diffusion. *American Economic Review*, 92(1), 120-142.
- Keller, W. (2004). International technology diffusion. *Journal of Economic Literature*, 42(3), 752-782.
- Kought, B. & Zander, U. (1993). Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies*, 24(4), 625-645.
- Lipsey, R. E. (1995). Outward direct investment and the U.S. Economy. In M. Feldstein, J.Hines Jr., and R. G. Hubbard (Eds.), *The effects of taxation on multinational corporations* (pp. 7-33). Chicago, Illinois: University of Chicago Press.
- Liu, X., Wright, M., Filatotchev, I., Dai, O., & Lu, J. (2010). Human mobility and international knowledge spillovers: evidence from high-tech small and medium enterprises in China. *Strategic Entrepreneurship Journal*, 4, 340-355.
- Nelson, R. R., & Winter, S. G. (1982). *An evolutionary theory of economic change*. Cambridge, MA: Belknap Press of Harvard University Press.
- Nohria, N. & Ghoshal, S. (1997). *The differentiated network : organizing multinational corporations for value creation*. San Francisco, CA: Jossey-Bass Publishers.
- Polanyi, M. (1967). *The tacit dimension*. London, England: Routledge & K. Paul
- Reynolds, P., Miller, B., & Maki, W. R. (1995). Explaining regional variation in business births and deaths: U.S. 1976-1988. *Small Business Economics*, 7(5), 389-707.
- Reynolds, P., Storey, D. J., & Westhead, P. (1994). Cross-National comparisons of the variation in new firm formation rates. *Regional Studies*, 28(4), 443-456.

- Roomi, M., & Parrott, G. (2008). Barriers to development and progression of women entrepreneurs in Pakistan. *The Journal of Entrepreneurship* 17(1), 59-72.
- Salmenniemi, S., Karhunen, P., & Kosonen, R. (2011). Between business and byt: experiences of women entrepreneurs in contemporary Russia. *Europe-Asia Studies*, 63(1), 77-98.
- Schumpeter, J. A. (1934). *The theory of economic development: an inquiry into profits, capital credit, interest, and the business cycle*. Cambridge, MA: Harvard University Press.
- Shane, S. (2003). *A general theory of entrepreneurship: the individual-opportunity nexus*. Cheltenham, UK: Edward Elgar Publishing.
- Shane, S. & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25(1), 217-226.
- Si, S., & Bruton, G. (1999). Knowledge transfer in international joint ventures in transitional economies: the China experience. *Academy of Management Executive*, 13(1), 83-90.
- Si, S. & Bruton, G. (2003). Knowledge transfer in international joint ventures. In G. Redding, & B. W. Stening (Eds.), *Cross-cultural management*. Northampton, MA: Edward Elgar Publishing.
- Si, S. & Bruton, G. (2005). Knowledge learning, cost economizing, and competitive positioning: IJV motivation in emerging economies. *Journal of Business Research*, 58: 1465-1473.
- Steger, M., (2002). *Globalism: the new market ideology*. Lanham, MD: Rowman and Littlefield Publishers.
- Sternberg, R., & Rocha, H. O. (2007). Why entrepreneurship is a regional event: theoretical arguments, empirical evidence, and policy consequences. In M. Rice, & T. Habbershon (Eds.), *Entrepreneurship: The engine of growth* (pp. 215-238). Westport, CT: Praeger Publishers.
- Teece, D.J. (1986). Transactions cost economics and the multinational enterprise: an assessment. *Journal of Economic Behavior and Organization*, 7(1), 21-45.
- Venkataraman, S. (1997). The distinctive domain of entrepreneurship research: an editor's perspective. In J. Katz & R. Brockhaus (Eds.), *Advances in entrepreneurship, firm emergence and growth* (pp. 119-138). Greenwich, CT: JAI Press.
- Welsh, D. H. B., & Dragusin, M. (2010). Sustainable strategic management in an emerging market economy: The case of Romanian women entrepreneurs. *International Journal of Sustainable Strategic Management*, 1(4), 344-359.
- Williamson, O. E. (1985). *The economic institutions of capitalism: firms, markets, relational contracting, free press*. New York, NY: Collier Macmillan.

# **The Impact of Strategic Focus and Previous Business Experience on Small Business Performance**

Michael Harris, East Carolina University  
Shanan Gibson, East Carolina University  
William McDowell, East Carolina University

## **Abstract**

This study examines whether or not having an internal or external strategic focus interacts with prior experience in the small business realm to impact perceived organizational performance. Utilizing a sample of 237 small business owners from the southeast U.S., a factorial ANOVA and Regression Analysis was used to test hypotheses related to these constructs. Results indicated that utilizing an internal focus was associated with higher performance among both experienced and inexperienced small business owners; however, an external focus was only positively related to performance for inexperienced business owners. No overall difference in performance was found for experience itself.

## **Introduction**

Small business owners come from a wide variety of backgrounds and experiences. Research on small business and entrepreneurship has explored a wide range of topics, including both environmental and internal characteristics. Past studies have focused on factors such as geographical location, regional policies, access to resources and support programs, family history, educational levels, personality traits and experiences, financial knowledge, and strategic choices (Gibson, 2012; Harris, McDowell, Zhang, & Gibson, 2011; Gibson, McDowell, & Harris, 2011; McDowell, Harris, & Gibson, 2010; Harris, Gibson & Mick, 2009; Mazzarol, Reboud & Soutar, 2009; Runyan, Huddleston & Swinney, 2006; Verheul, Risseum & Bartelse, 2002). These findings have provided numerous predictions and discussion points related to the development of an entrepreneurial profile for business owners. While business owners seem to come in all shapes and sizes, we still need better insight into why some are more successful than others. This study seeks to examine factors that can play a role in small business performance; specifically, the impact of strategic choices and prior business experience. More experienced business owners should have greater knowledge in these areas, and this expertise can play a significant role in determining patterns of business startup and organizational performance.

Penrose (1959) suggested that firms are a combination of resources, capabilities, and competencies. According to the resource based view, a distinct competitive advantage can be obtained if the resources or competencies are unique and difficult to replicate (Penrose, 1995). Additional research has focused on blending a firm's resources with its product or service capabilities (Wernerfelt, 1984), or specialized human capital (Miller & Ross, 2003). Similarly, Thompson (2004) argues that successful business creation requires a combination of temperament, talent and technique. Other studies have emphasized the importance of business techniques and strategies (Sriram, Tigineh & Herron, 2007) as critical factors in determining organizational performance. A better understanding of the internal knowledge and experiences of business owners can make an important contribution to the research literature, as well as provide practical guidance for nascent entrepreneurs.

## **Literature Review**

### *Strategic Focus*

The strategic focus of most businesses can be categorized into one of two broad strategic directions. First, organizations can have a more internally focused strategic approach. These organizations tend to focus their energies toward developing the inner workings of the organization including their personnel, efficiencies, and cost control. Alternatively, organizations may pursue a more external or growth oriented focus. These

organizations are concerned with adopting business strategies that promote growth through sales, revenues, and new customers through new products or services (Gibson, McDowell, Harris, 2011; Kumar, Subramanian, & Strandholm, 2001; Trinh & O'Connor, 2000).

Many individuals are motivated to pursue business ownership as a result of opportunity recognition and/or lack of viable economic alternatives. Some, particularly less experienced minority groups, have historically felt that fewer opportunities exist in the corporate world, and they have experienced lower levels of career satisfaction (Greenhaus, Parasuraman, & Wormley, 1990). These individuals are apt to pursue business creation as a way to move past these workplace frustrations (Weiler & Bernsek, 2001; Heilman & Chen 2003). In addition, previous research has found that individuals willing to take the risks associated with business startup are often motivated by achievement, opportunity, job satisfaction and independence (Hisrich & Brush, 1987).

Past research has shown a connection between managerial knowledge, social networks, strategic approach and organizational performance (Mazzarol, Rebound & Soutar, 2009). The resource-based view framework suggests that differences in firm resources help explain performance differences. A business has a specific set of resources to be used to develop a competitive advantage. Examples of resources include tangible items such as capital, equipment, geographical location, as well as managerial skills, specialized knowledge, and organizational processes. In order to achieve success, business owners must combine their unique resources with their internal capabilities to create a sustainable advantage.

In the small business arena, the availability of resources is often directly linked to the talents and skills of the business owner (Runyan, Huddleston & Swinney, 2006). While some business owners rely more heavily on intangible resources and relational strategies that emphasize customer service and human resource management practices, others focus more on tangible resources and assets that emphasize production and financial performance. As suggested by Verheul, Risseum and Bartelse (2002), some business owners are focused on opportunity recognition, while others are more necessity driven to start a new venture. As a result, owners generally emphasize growth strategies based on financial objectives or a more specialized strategy that promotes business continuity rather than expansion. Interestingly, Verheul, Risseum and Bartelse (2002) found that men are more likely to focus on growth strategies and financial outcomes whereas females are often more concerned with business relationships and firm stability. Similarly, research by Boohene, Sheridan and Kotey (2008) and Knotts, Jones and Brown (2008) indicated that men generally have a greater focus on production capabilities and financial objectives while women place more emphasis on marketing and customer service.

### **Prior Business Experience**

Research has established a link between entrepreneurial intentions and past business experiences. This can include direct experience in creating a new business venture or indirect experience through working in a family business. Past studies have shown that both work experience with a small business (Peterman & Kennedy, 2003; Harris & Gibson, 2008) and a family business (Reitan, 1997; Harris & Gibson, 2008) can have a positive impact on perceptions of new venture feasibility and desirability.

Similarly, Krueger (1993) suggested that past business experiences have a positive influence on an entrepreneur's desire to start a new venture. In addition, Krueger and Brazeal (1994) proposed that various entrepreneurial characteristics can be learned and often vary based on personal background and experiences. Gatewood, Shaver, Powers, and Gartner (2002) found that individuals receiving positive feedback about their entrepreneurial experiences and abilities often have higher expectations when starting a new business venture. This seems to indicate that previous business experience can play a significant role in future expectations for business success, and is likely to impact future business decisions such as strategic choices and resource acquisition.

## Hypotheses

Building upon existing research on strategic focus and prior experience, we believe that there exists a relationship between prior business experience, strategic focus, and performance. The strategic choices of business owners can be greatly influenced by the knowledge gained from previous entrepreneurial opportunities (Harris & Gibson, 2008). This knowledge provides a better understanding of the challenges and resources need to start and maintain a successful venture. It also provides an important prospective on managing relationships and a greater understanding of strategic decision making and its impact on business performance. Successful business owners are to able to best combine their individual talents and experiences with their business resources and capabilities in a manner that creates a sustainable competitive advantage (Runyan, Huddleston & Swinney, 2006). As such, we offer the following hypotheses:

- H1a: There is a positive relationship between internal strategic focus and performance for business owners with previous business experience.
- H1b: There is a positive relationship between external strategic focus and performance for business owners who do not have previous business ownership experience.

Research has shown that business success is generally based on a combination of strategy choice and resource availability (Mazzarol, Reboud & Soutar, 2009). Consistent with this fact, more experienced business owners are likely to have greater access to both tangible and intangible resources due to greater knowledge of the start-up process. Therefore, it is anticipated that the highest levels of performance will be realized by those organizations with more experienced business owners. As such, we posit:

- H2: Owners with prior business experience will have significantly stronger performance than less experienced owners.

## Methodology

### *Sample*

Small business owners who worked with the North Carolina Small Business and Technology Development Center were contacted via email and asked to complete an online survey that examined multiple aspects of their businesses as well as current strategic direction and performance. Of the approximately 1500 requests, 270 responses were received which indicates an 18% response rate. There were 237 total usable responses with 55% male and 50% ethnic minority. Of those that responded, the number of employees besides the owner ranged from 0 – 200 with an average of nine employees. In addition, the age of the owners ranged from 18 to 75 with an average age of 49.2 years old and the number of years the respondent has owned the current business ranged from 0 to 68 years with an average of 10.5 years.

### *Measures, Data, and Scale Analysis*

The survey collected information on gender, age, previous business ownership experience, years of current ownership and ethnicity. In addition, the respondents were also asked several questions that indicated strategic emphasis. The items used were adapted from Davis, Miles, and McDowell's (2008) questions on strategic focus. These items can be found in Table 1. In addition, performance was measured using 10 questions that were combined into a single scale score for performance. These items assessed satisfaction on multiple areas of performance within an organization. Previous empirical evaluations have found these subjective measures are highly correlated with objective measures (Dess & Robinson, 1984; Vernkatraman & Ramanujam, 1986) with use in business literature (Covin, Prescott & Slevin, 1990; Greenley, 1995; Slater & Narver, 1995; Subramanian, Kumar & Strandhold, 2009). These items can be found in Table 2.

In order to assess construct validity of the item scores, an exploratory factor analysis was utilized on the strategy items. Using factor analysis with an Eigenvalue greater than one rule (Kaiser, 1960), these items yielded two factors with Eigenvalues one and two at 5.301 and 1.756 respectively. The first six items

indicated an internal strategic focus and the next seven items indicated an external strategic focus. The factor pattern/structure coefficients including Eigenvalues and Cronbach's alphas to examine reliability can be found in Table 1. In addition, factor analysis was also applied to the items measuring performance. These results also indicated a good fit to the data with the items combined into a single performance measurement. The factor pattern/structure coefficients including the Eigenvalues and Cronbach's alpha for performance can be found in Table 2.

Table 1. Factor Pattern/Structure Coefficients for Internal and External Strategy

| Strategy Item Name   | Internal Strategy |                | External Strategy |                | Mean | SD    |
|--|-------------------|----------------|-------------------|----------------|------|-------|
|  | Factor            | h <sup>2</sup> | Factor            | h <sup>2</sup> |      |       |
| Monitoring and enhancing employee satisfaction and morale    | .804              | .646           |                   |                | 3.42 | 1.383 |
| Fostering employee participation and empowerment             | .796              | .634           |                   |                | 3.35 | 1.381 |
| Incentive compensation based on team or facility performance | .788              | .621           |                   |                | 2.93 | 1.396 |
| Attracting and retaining high quality employees              | .777              | .604           |                   |                | 3.58 | 1.413 |
| Employee profit Sharing                                      | .679              | .461           |                   |                | 2.20 | 1.420 |
| Training and continuing education of employees               | .663              | .440           |                   |                | 3.16 | 1.356 |
| Increasing growth in revenue                                 |                   |                | .774              | .599           | 4.24 | .958  |
| Improving profit margin                                      |                   |                | .740              | .548           | 4.10 | 1.026 |
| Continuous improvement of existing products and services     |                   |                | .729              | .531           | 4.41 | .843  |
| Realizing returns on new products or services                |                   |                | .724              | .524           | 3.85 | 1.093 |
| Customer satisfaction  |                   |                | .709              | .503           | 4.68 | .757  |
| Offering lower priced products or services                   |                   |                | .418              | .175           | 2.76 | 1.329 |
| Advertising and promotions                                   |                   |                | .395              | .156           | 3.36 | 1.184 |
| Total Variance Explained                                     | 54.288            |                |                   |                |      |       |
| Initial and Second Eigenvalue                                | 5.301             |                | 1.756             |                |      |       |
| Third Eigenvalue   | .985              |                |                   |                |      |       |
| Alpha  | $\alpha = .874$   |                | $\alpha = .797$   |                |      |       |

Table 2. Factor Pattern/Structure Coefficients for Performance

| Performance Items  | Factor          | h <sup>2</sup> | Mean | SD    |
|--|-----------------|----------------|------|-------|
| Maintaining employee morale                                | .781            | .610           | 3.57 | 1.116 |
| Pricing products/services                                  | .753            | .567           | 3.91 | .802  |
| Managing staffing needs                                    | .747            | .558           | 3.61 | 1.144 |
| Communicating with employees                               | .731            | .534           | 3.78 | 1.140 |
| Retaining customers  | .696            | .484           | 4.06 | .938  |
| Managing expenses  | .600            | .360           | 3.99 | .931  |
| Developing new products or services to meet customer needs | .595            | .354           | 3.80 | .982  |
| Paying debts or liabilities                                | .579            | .335           | 4.11 | .991  |
| Collecting accounts receivables                            | .520            | .270           | 4.03 | 1.072 |
| Finding new customers                                      | .519            | .269           | 3.68 | 1.067 |
| Total Variance Explained                                   | 43.430          |                |      |       |
| Initial Eigenvalue   | 4.343           |                |      |       |
| Second Eigenvalue  | 1.624           |                |      |       |
| Alpha  | $\alpha = .851$ |                |      |       |

## Results

The goal of the current study was to examine the relationship between strategic focus and performance for those small businesses with owners who have previous business ownership experience and those that do not. We hypothesized that there would be a positive relationship between internal strategic focus and performance for those who have previous business ownership experience. In addition, we hypothesized that there would be a positive relationship between external strategic focus and performance for those who have not had previous business ownership experience.

In order to test Hypotheses 1a and 1b, the data were split into two groups, those with previous business ownership experience and those without previous ownership experience. Examining first the previous ownership group, the results of the analysis showed good fit to the data. Step one included entering the control variables of employee size and years of current organization operation into the model. Step two included entering the predictor variables into the equation. The first model consisting of the control variables resulted in an ANOVA with an F-value of .166 ( $p = .848$ ). The second model, with the control variables and internal and external strategy, resulted in an F-value of 5.091 ( $p = .001$ ). The inclusion of internal and external strategy improved the fit with an  $R^2$  of .211 and an  $\Delta R^2$  of .207 that was statistically significant ( $p = .000$ ).

In addition, the relationship of the strategy items as predictors to performance were examined utilizing standardized and unstandardized coefficients, statistical significance, and confidence intervals. For a summary of this analysis, see Table 3. The results of the regression analysis indicate that for businesses with owners who have had previous business ownership experience, an internal strategic focus is statistically significantly related to performance, thus supporting Hypothesis 1a.

Table 3. Results of Simultaneous Regression Analysis for Prediction of Performance for Business Owners with Prior Business Ownership Experience

| Variable            | <i>B</i> | <i>SE B</i> | $\beta$ | 95% CI Lower | 95% CI Upper | VIF   |
|---------------------|----------|-------------|---------|--------------|--------------|-------|
| Step 1              |          |             |         |              |              |       |
| Employees           | .002     | .006        | .047    | -.010        | .014         | 1.308 |
| Company Years       | .001     | .005        | .028    | -.009        | .011         | 1.308 |
| Step 2              |          |             |         |              |              |       |
| Employees           | .001     | .006        | .025    | -.010        | .013         | 1.399 |
| Company Years       | .000     | .004        | .011    | -.008        | .009         | 1.309 |
| Internal Strategies | .279     | .063        | .483**  | .153         | .405         | 1.151 |
| External Strategies | -.109    | .107        | -.116   | -.323        | .105         | 1.242 |

Note:  $R^2$  for first model = .004.  $R^2$  for second model = .211.  $\Delta R^2 = .207$ .  $p = .000$ .

\*\* $p < .001$ .

N = 80. Two-tailed tests.

When the same examination was applied to the group without previous business ownership experience, the model was again statistically supported with an F-value of 1.985 ( $p = .146$ ) for the first model and an F-value of 8.743 ( $p = .000$ ) for model 2. Model 2 improved the fit with an  $R^2$  of .357 and an  $\Delta R^2$  of .299 that was statistically significant ( $p = .000$ ). The results of this regression analysis supported Hypothesis 1b in that external strategic focus was positively related to performance in those businesses owned by individuals who did not have previous business ownership experience. However, in this examination, we found that not only was there a statistically significant positive relationship between external focus and performance, but there was also a positive relationship between internal strategic focus and performance which was not hypothesized. Table 4 provides the analysis summary.

Hypothesis 2 indicated that overall there would be higher organizational performance among those that had previous business ownership than those that did not. Utilizing a One-Way ANOVA, we found that although the mean value for those that did have previous ownership ( $M = 3.89$ ) was higher than those that did not ( $M = .381$ ), that this was not statistically significant with an F-value of .690 ( $p = .407$ ). Thus, Hypothesis 2 was not supported. The relationship between performance and previous ownership can be seen in Figure 2.

Table 4. Results of Simultaneous Regression Analysis for Prediction of Performance for Business Owners with No Prior Business Ownership Experience

| Variable            | <i>B</i> | <i>SE B</i> | $\beta$ | 95% CI Lower | 95% CI Upper | VIF   |
|---------------------|----------|-------------|---------|--------------|--------------|-------|
| Step 1              |          |             |         |              |              |       |
| Employees           | .010     | .007        | .192    | -.004        | .024         | 1.314 |
| Company Years       | .004     | .008        | .078    | -.011        | .019         | 1.314 |
| Step 2              |          |             |         |              |              |       |
| Employees           | .004     | .006        | .074    | -.008        | .016         | 1.390 |
| Company Years       | -.004    | .007        | -.068   | -.017        | .009         | 1.388 |
| Internal Strategies | .223     | .071        | .381*   | .081         | .365         | 1.440 |
| External Strategies | .291     | .104        | .316*   | .082         | .499         | 1.255 |

Note:  $R^2$  for first model = .058.  $R^2$  for second model = .357.  $\Delta R^2 = .299$ .  $p = .000$ .

\* $p < .01$ .

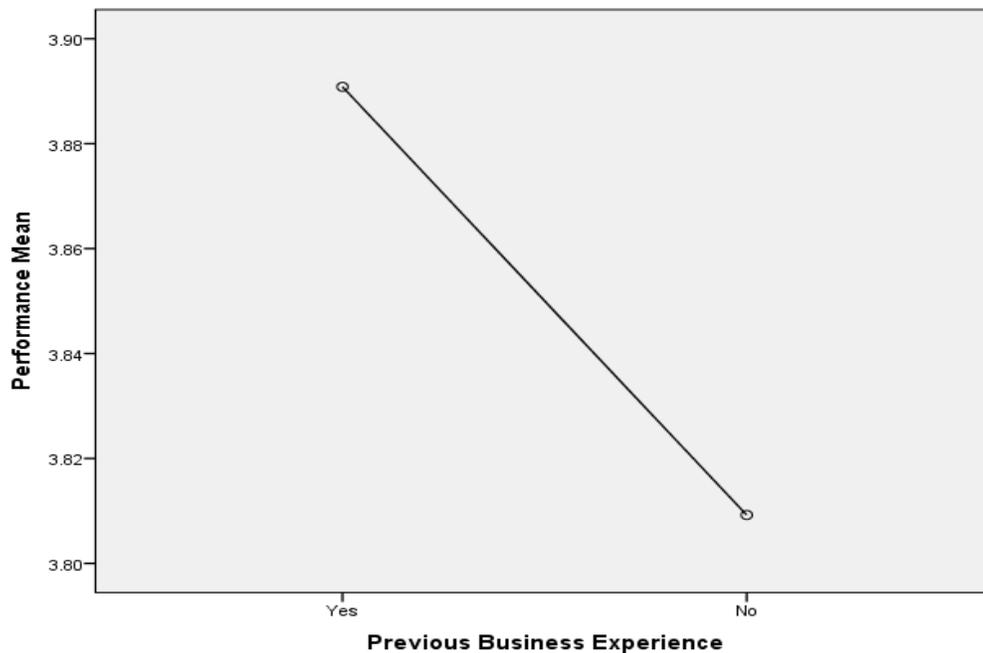
N = 67. Two-tailed tests.

### Discussion and Implications

According to the Small Business Administration, only two-thirds of all small business startups survive the first two years and fewer than half will survive four years (Ritholtz, 2012). Given that small businesses play such a critical role in the economy of the U.S.; producing one-half of the privately generated GDP in the country, 55% of jobs in the private sector, and creating approximately two out of every three net new jobs in the United States since the early 1970's (National Federation of Independent Businesses (NFIB), 2012), it is imperative that scholars continue their efforts to identify what factors are associated with the survival and success of small business enterprises. Furthermore, a better understanding of the strategies and techniques utilized by successful small business owners can contribute to both the research realm and the ability of policy makers and service providers to support this important constituency.

Given that "lack of experience" is frequently cited as the number one reason businesses fail (Ritholtz, 2012), it is a small inferential leap to assume that experience yields not only better understanding of sales and fiscal matters but also of human resources and performance management. As such, the use of internal strategies was expected and found to be positively associated with the performance of experienced small business owners. Although not posited, this same positive relationship was also found between inexperienced small business owners who practiced an internal strategic focus and performance. As such, our findings provide additional support for Edelman, Brush, and Manolova (2005) who found that internally focused practices are often more effective than external innovation for businesses not in the high-tech sector. This positive relationship with internal focus may also stem from the nature of the economy at the time this data was collected. Most analysts suggest that 2009 marked the turning point for the economy – whereas the National Federation of Independent Businesses survey found it to be the worst year in decades for small business owner optimism, it was also the start of economic recovery (ADP, 2012). Given the outlook of small business owners at this time, having an internal focus may have been a mechanism for preparing for incremental growth (Sandberg, 2003; Venkatraman & Ramanujam, 1986) in the coming turn-around. If this is indeed the case, future research should consider assessing to what degree incremental growth, as opposed to aggressive movement toward increased sales, has yielded success among small business owners in recent years.

Figure 2. Organizational Performance by Previous Business Experience



Contrary to the assertions of those such as Ritholtz (2012), our findings do not substantiate a significant difference in overall perceptions of performance by experienced and in-experienced small business owners. However, this too, may be attributable to market conditions at the time of data collection. Performance expectations were likely tempered in the years immediately preceding and including 2009; as such the lack of significant differences may simply reflect the reality facing all small business owners at this time. With mean responses between 3.8 and 3.9 on a scale of one to five, no business owners reported exceptionally high levels of performance.

### Conclusion

Despite decades of research, no perfect formula exists for predicting entrepreneurial success. However, with each successive study, new insight is gained and we develop a better appreciation for the myriad attributes that can influence the likelihood of both success and failure among small business owners. While clearly an incremental approach to theory development and practical outcomes, any knowledge gained has the potential to be useful as we strive to create and deliver better small business owner training opportunities, government programs, and in general, stimulate the small business environment during challenging economic times.

The organizational success of small businesses may be impacted by a number of factors, including the two featured in this study—strategic orientation and previous business experience. Additional research should continue to examine other variables, at both the individual and firm level, that may impact firm performance. With the changing economic paradigm in the U.S. it is critical to promote growth in the small business sector. These firms are the backbone of the national economy and it is critical that we encourage new business startups and support existing small businesses as they grow and become important sources for future jobs. A greater understanding of the strategic nature and success factors of small businesses may allow for better opportunities for aspiring entrepreneurs.

## References

- ADP. (2012). June 2012 ADP National Employment Report. Retrieved 9/10/12 from: [http://www.adpemploymentreport.com/PDF/FINAL\\_Report\\_June\\_12.pdf](http://www.adpemploymentreport.com/PDF/FINAL_Report_June_12.pdf).
- Boohene, R., Sheridan, A., & Kotey, B. (2008). Gender, personal values, strategies and small business performance: A Ghanaian case study. *Equal Opportunities International*, 27(3), 237-257.
- Covin, J., Prescott, J., & Slevin, D. 1990. The effects of technological sophistication on strategic profiles, structure, and firm performance. *Journal of Management Studies*, 27: 485–510.
- Davis, M.A., Miles, G., & McDowell, W.C. (2008). Environmental scanning as a moderator of strategy-performance relationships: An empirical analysis of physical therapy facilities. *Health Services Management Research*, 21, 81-92.
- Dess, G.C. & Robinson, R.B. (1984). Measuring organizational performance in the absence of objective measures: The case of privately-held firms and conglomerate business unit. *Strategic Management Journal*, 5, 265-273.
- Edelman, L.F., Brush, C.G., & Manolava, T. (2005). Co-alignment in the resource-performance relationship: Strategy as a mediator. *Journal of Business Venturing*, 20(3), 359-383.
- Gatewood, E.J., Shaver, K.G., Powers, J.B., & Gartner, W.B. (2002). Entrepreneurial expectancy, task effort, and performance. *Entrepreneurship Theory and Practice*, 27(2), 187-206.
- Gibson, S. G. (2012). The influence of strategic focus & gender on performance: An examination of small businesses. *Journal of Small Business Strategy*, 21(2), 47-58.
- Gibson, S., McDowell, W., Harris, M. (2011). The impact of strategic orientation and ethnicity on small business performance. *Journal of Business Diversity*, 11 (1), 9-18.
- Greenhaus, J. H., Parasuraman, S., & Wormley, W. M. (1990). Effects of race on organizational experiences, job performance evaluations, and career outcomes. *Academy of Management Journal*, 33(1), 64-86.
- Greenley, G.E. (2005). Market orientation and company performance: Empirical evidence from UK companies. *British Journal of Management*, 6(1), 1-13.
- Harris, M. & Gibson, S. (2008). Examining the entrepreneurial attitudes of U.S. business students. *Education + Training*, 50 (7), 568 - 581.
- Harris, M. L., Gibson, S. G., & Mick, T. D. (2009). Examining the relationship between personality and entrepreneurial attitudes: Evidence from U.S. college students. *Small Business Institute® Journal*, 3, 21-51.
- Harris, M. L., McDowell, W. C., Zhang, L., & Gibson, S. G. (2011). Strategic relationships in a small business context: The impact of information quality and continuous quality improvement. *New England Journal of Entrepreneurship*, 14(2), 19-27.
- Heilman, M.E. & Chen, J.J. (2003). Entrepreneurship as a solution: The allure of self-employment for women and minorities. *Human Resource Management Review*, 13, 347-364.
- Hisrich, R. D., & Brush, C. G. (1987). Women entrepreneurs: A longitudinal study. In R. Ronstadt, J. A. Hornaday, R. Peterson, & K. H. Vesper (Eds.) *Frontiers of Entrepreneurship* (pp. 187-189). Wellesley, MA: Babson College.
- Knotts, T.L., Jones, S.C., & Brown, K.L. (2008). The effect of strategic orientation and gender on survival: A study of mass merchandising suppliers. *Journal of Developmental Entrepreneurship*, 13(1), 99-113.
- Krueger, N. (1993). The impact of prior entrepreneurial exposure on perceptions of new venture feasibility and desirability. *Entrepreneurship Theory & Practice*, 18(1), 5-21.
- Krueger, N. & Brazeal, D. (1994). Entrepreneurial potential and potential entrepreneurs. *Entrepreneurship Theory & Practice*, 18(3), 91-94.
- Kumar, K., Subramanian, R., & Strandholm, K. (2001). Competitive strategy, environmental scanning and performance. *International Journal of Commerce and Management*, 11, 1-33.

- Mazzarol, T., Reboud, S. & Soutar, G.N. (2009). Strategic planning in growth oriented small firms. *International Journal of Entrepreneurial Behavior & Research*, 15(4), 320-345.
- McDowell, W. C., Harris, M. L., & Gibson, S. G. (2010). The Impact of trust and dependency on business performance: A study of SME suppliers. *Small Business Institute® Journal*, 6, 41-62.
- Miller, S.R. & Ross, A.D. (2003). An exploratory analysis of resource utilization across organizational units: Understanding the resource-based view. *International Journal of Operations and Production Management*, 23(9) 1062-1084.
- NFIB (2012a). 411 small business facts. Retrieved 8/29/2012 from: <http://www.411sbfacts.com/speeches.html>.
- Penrose, E. T. (1959). *The Theory of the Growth of the Firm*. New York: John Wiley.
- Penrose, E. (1995). *The Theory of the Growth of Firms*, 3<sup>rd</sup> edition. Oxford, NY: Oxford
- Peterman, N.E. & Kennedy, J. (2003). Enterprise education: Influencing students' perceptions of entrepreneurship. *Entrepreneurship Theory and Practice*, 28(2), 129-144.
- Reitan, B. (1997). Entrepreneurial intentions: A combined models approach. Paper presented at the 9<sup>th</sup> Nordic Small Business Research Conference, Lillehammer, Norway, May 29-31.
- Ritholtz, B. (2012). Small business success/failure rates. Retrieved 9/12/2012 from: <http://www.ritholtz.com/blog/2012/01/small-business-successfailure-rates>.
- Runyan, R.C., Huddleston, P. & Swinney, J. (2006). Entrepreneurship orientation and social capital as small firm strategies: A study of gender differences from a resource-based view. *International Entrepreneurship and Management Journal*, 2(4), 455-477.
- Sandberg, K.W. (2003). An exploratory study of women in micro enterprises: Gender-related differences. *Journal of Small Business and Enterprise Development*, 10(4), 408-417.
- Slater, S. & Narver, J. 1995, Market orientation and the learning organization. *Journal of Marketing*, 59(3), 63-74.
- Sriram, V., Mersha, T. & Herron, L. (2007). Drivers of urban entrepreneurship: An integrative model. *International Journal of Entrepreneurial Behaviour & Research*, 13(4), 235-251.
- Subramanian, R., Kumar, K., & Strandholm, K. (2009). The relationship between market orientation and performance under different environmental conditions: The moderating effect of the top management team's risk taking behavior. *Academy of Strategic Management Journal*, 8, 121-133.
- Thompson, J.L. (2004). Innovation through people. *Management Decision*, 42(9), 1082-1094.
- Trinh & O'Connor, (2000). Helpful or harmful? The impact of strategic change on the performance of U.S. urban hospitals. *Health Services Research*, 37(1), 143-169.
- Venkatraman, N., & Ramanujam, V. (1986). Measurement of business performance in strategy research: a comparison approach. *Academy of Management Review*, 11, 801-814.
- Verheul, I., Risseuw, P. & Bartelse, G. (2002). Gender differences in strategy and human resource management: The case of Dutch real estate brokerage. *International Small Business Journal*, 20(4), 969-988.
- Weiler, S. & Bernasek, A. (2001). Dodging the glass ceiling? Networks and the new wave of women entrepreneurs. *Social Science Journal*, 38, 85-103.
- Wernerfelt, B. (1984). A resource based view of the firm. *Strategic Management Journal*, 5(2), 171-180.

# The Importance of Small Business Leader Virtues

Sandra Lee (Sandy) Flores, Our Lady of the Lake University  
Mark T. Green, Our Lady of the Lake University

## Introduction

There has been a small amount of research on small businesses and ethics. According to the Advocacy Small Business Statistics and Research center small businesses employ about half of U.S. workers. Due to the increase of employees working for small and mid-sized organizations it is essential that we continue conducting studies to determine how vital it is for leaders, as well as followers, to maintain their ethical standards in the workplace and what type of benefits the organization will gain. Today, 87% of the Fortune Global 200 companies have a code of ethics within their organization. (Kaptein, 2009). Kay and Popkin believe that organizations must enhance their decision-making strategies by incorporating ethics into their strategies. This will allow them to improve their bottom line. Organizations will need to attempt to guide employees' behavior through the vision, mission statement, credos, policies and formal codes of ethical conduct. Leadership will be essential to the success of implementing an ethics model within the organization. (Lloyd and Mey, 2010). Kaptein's (2009) study found that ethics programs are strongly correlated to the ethical culture of organizations; in spite of this, not every facet of the ethics program has a positive influence on every dimension of the ethical culture.

Many would argue that being a transformational leader in a small to mid-sized organization is more valuable than in larger organizations. Due to the small amount of employees the leaders are observed by most employees in the organization on a daily basis. These small business workers likely want a leader who is transparent. Not only must the leader be transformational, she/he must also exhibit qualities that are authentic. The leaders must be humble and have a commitment to develop their employees by being good role models, training and mentoring. (Verbos, Gerard, Forshey, Harding, & Miller, 2007)

There have been multiple studies on ethics and the affect it has on a company's culture. Studies have found that employees' perceptions of positive or negative workplaces are attributed to the ethical standards leaders' employ. An emerging area of interest in the study of leadership includes the personal virtues that leaders hold. The general idea of a virtue is a guiding principle that is practiced at all times. (Riggio., Zhu, Reina & Maroosis, 2010). Unlike, leadership ethics, which tend to emphasize leader behaviors, Riggio et al., argue that ethical leadership is "best represented by the makeup of the individual, the virtues he or she possesses, and the self-knowledge and self-discipline that guide the leader's moral actions. The model that we used to guide our research is Aristotle's virtue-based ethics." (p. 237).

To date there is no empirical research on virtues and small and mid-sized organizations. Similarly, while it is clear that transformational leadership does have a positive impact on the small and mid-size organizations.

## The Benefits of Transformational Leadership

Transformational leadership consistently results in high follower satisfaction, high follower assessment of the leader's effectiveness, and high follower willingness to give extra effort at work. In the largest meta-analysis of studies that have used the *Multifactor Leadership Questionnaire*, Wang, Oh, Courtright, and Colbert (2011) meta-analyzed 117 independent samples over 113 primary studies.

Transformational leadership was positively related to the individual level performance ( $N = 16,809$ ,  $r_c = .25$ ), task performance ( $N = 7,016$ ,  $r_c = .21$ ), contextual performance ( $N = 7,970$ ,  $r_c = .30$ ), creative performance ( $N = 3,728$ ,  $r_c = .21$ ), and general performance contextual performance ( $N = 4,017$ ,  $r_c = .18$ ).

Contingent reward was also positively related to individual, task and contextual measures of performance, with estimated corrected mean correlations ranging from  $r_c = .22$  to  $.28$ . Conversely, both management by exception active and passive were negatively related to individual, task and contextual measures of performance, with estimated corrected mean correlations ranging from  $r_c = -.03$  to  $-.29$ .

### **The Benefits of Implementing Ethical Practices**

Exercising corporate responsibility is a practice that most large organizations have incorporated as part of their corporate structure for years. Enderle (2004) argues multiple reasons why Small Medium Enterprises' (SME) must also engage in this type of practice in order to achieve success on a global platform even though they will encounter a multitude of challenges due to their size. It is crucial that we understand the difficulties that SME's stumble upon and at times following the ethical path seem to be impossible and unreal. A large amount of attention is focused on SME's that we are losing sight that they are simply small fish trying to survive in the ocean.

Enderle helps us understand the challenges that SME's encounter and note success stories of two SME's that faced similar struggles yet they were able to be successful in the global platform while being social and environmental stewards of their resources. In the findings, he was able to close with seven recommendations that can help any SME succeed. The two organizations did not provide scientific proof to their success; however, they did provide hope and encouragement for anyone that wonders if it is possible to have a successful SME while maintaining an ethical perspective.

According to Spence (1999), there is some literature on business ethics for small businesses; however, there is no clear picture on business ethics from the small business perspective. Having the perspective from the small business owner/manager is essential in order to have a better understanding of their struggles from their point of view and not that of a large business owner/manager perspective. The necessary resources and tools for the SME's must be made known, the only way to determine what is needed is by conducting exploratory studies.

Quinn (1997) conducted a study to determine if there was a link between the personal ethics of the owner/manager and his/her attitude to ethical problems in business of small to medium enterprises. The three part questionnaire was administered during personal interviews with owners/managers of 41 small businesses. There were three subgroups identified: religious, business, and community. The mean scores on each attitude scale were compared using the t-test. The religious group was the only group that exhibited a significant difference on an attitude measure. The business group is less likely to be open and honest with their customers. The most influential factor determining an individual's behavior when faced with an ethical business issue will be their personal ethics.

### **Previous Studies**

#### *Research on Virtues*

Although the idea of virtues has been discussed by theologians such as St. Aquinas for millennia, the specific application of virtues to leadership as a quantifiable construct is relatively new. Consequently, there are few published studies on leader virtue.

Brown (2011) has argued that many of the virtues outlined by Braham (2005) and Johnson (2009) align well with aspects of what the ancient Greeks called "the four chief or cardinal virtues." A moderate to strong correlation exists between important or chief virtues and what Kouzes and Posner's (2007) research defined as the four key attributes "people most look for in a leader they are willing to follow"; honest, forward-looking, inspiring, and competent.

Johnson (2009) researched a number of organizations that employed virtuous people who created an organizational system culture of high moral character and were able to successfully sustain markets and profits in highly competitive arenas. Johnson argues that leaders aiming to address organizational change from a humanist perspective must embody the virtues of courage, integrity, humility, reverence, optimism, and justice. The list can be easily amended to include the additional three cardinal virtues of temperance, prudence, and fortitude (Rahschulte, 2010).

#### *Meta-Analytic Studies of Leadership and Ethics*

While the formal study of leader virtues is relatively new, leader ethics has been studied sufficiently to enable meta-analyses. Davis and Rothstein (2006) meta-analyzed 12 studies in which followers rated the integrity of their leader/manager and, in turn, completed job satisfaction instruments. Each of the individual studies reported positive relationships between perceived leader integrity and follower outcomes. The mean corrected correlation ( $r_c = .48$ ) indicated that increased manager/leader behavioral integrity was correlated with followers who reported higher job satisfaction, higher satisfaction with the organization's leadership, and higher commitment to the organization.

Martin and Cullen (2006) meta-analyzed 42 studies that measured leader ethics and follower job satisfaction, follower psychological well-being and dysfunctional behavior. Among the findings were that the more followers believed the organizational climate emphasized self-interest and company profit the less job satisfaction and more dysfunction the followers reported. Conversely, the more followers believed the climate fostered ethical decisions that were based on an overarching concern for the well-being of others, the higher the followers rated their job satisfaction and psychological well-being. O'Fallon and Butterfield's (2005) review of 127 articles related to ethical decision making found that, generally, establishing an ethical climate positively influenced perceptions of ethical decision-making.

#### *Transformational Leadership and Ethics*

Several studies have specifically addressed the relationship between transformational leadership and ethics. Larsson, Eid, and Kjellevoll-Olsen (2010) found a strong relationship between ratings of the leaders' ethical justice behaviors and scores from the *Multifactor*

#### *Leadership Questionnaire*

Toor and Ofori (2009) found strong relationships between ratings given to leaders using the *Multifactor Leadership Questionnaire* and ethical ratings using the *Ethical Leadership Scale*. Ratings of the leaders' ethicality were positively correlated with transformational leadership and negatively correlated with passive-avoidant leadership. Engelbrecht, Van Aswegen, and Theron (2005) found a positive relationship between leaders' ratings using the *Multifactor Leadership Questionnaire* and ratings of the ethical climate as measured by Victor and Cullen's *Ethical Climate Questionnaire*.

Hood (2003) found a positive relationship between ratings given to leaders using the *Multifactor Leadership Questionnaire* and the leaders' morality-based, social, personal and competency-based values. Passive leadership style was negatively correlated to competency based values.

#### *Transformational Leadership and Virtues*

Riggio et al (2010) found that leader assessments on the *Leadership Virtues Questionnaire (LVQ)* were positively related to assessments of authentic leadership, ethical leadership and transformational leadership. Scores on the LVQ were inversely correlated to the personality characteristic of narcissism. LVQ scores were also positively related to follower psychological empowerment, follower organizational identification and follower moral identity.

### *Small Business and Ethics*

Dutta and Banerjee (2011) have found that due to the increase in small and medium businesses in this global economy, leaders have come to the realization that the ethical approach towards business will no longer be an option. Due to the size of these organizations, unique opportunities and challenges are often encountered and may entice a leader to diverge from ethical practices when interacting with their stakeholders, especially the employees. The research used the stakeholder theory as the conceptual basis to examine the extent to which SMEs attach meaning to ethical practices towards their employees.

Governments of numerous countries are either developing a code of business ethics for the organizations or they are requesting that the organization develop their own code of ethics and begin implementing the program accordingly. If organizations implement their own business ethics, this is referred to as self-regulation and implementation of business ethics. It has been empirically proven that ethical practices in business organizations help develop positive relationships with internal and external customers that will ultimately lead to a positive financial gain. The question still remains, concerning similarities and differences amongst small and large organizations. (Jalil, Azam & Rahman, 2010)

Small businesses must realize that they have responsibilities that they must uphold just like a large business; unfortunately for a small business one mistake could be immensely damaging to the business. There are activities that small businesses are likely to be viewed as socially irresponsible, and they all revolve around unethical practices. Small and mid-sized organizations have responsibilities to their employees and to their customers, and if they make a bad decision, they may have jeopardized their future. (Van Auken & Ireland, 1982)

Many organizations are allocating considerable resources to implement an ethics program because they know that an ethics program will bring positive results to their organization. The study demonstrated that if employees feel that their organization is just they will be influenced to have ethical tendencies and report any unethical behavior. Employees must see that their leader model ethical and just behavior in order for them to practice being ethical as well. It is critical for ethical practices to begin at the top in order for any ethical initiative to succeed. (Trevino & Weaver, 2001)

### **Instruments**

The *Leadership Virtues Questionnaire* (LVQ) measures four leader virtues: prudence, fortitude, temperance and justice. Prudence is the wisdom that manages or dictates a proper balance between two extremes in a world of shifting contexts and priorities. It is often associated with knowledge, practical wisdom, and insight. Fortitude includes the characteristics of perseverance, patience, endurance and courage directed toward adversity on behalf of a noble cause. Temperance is the ability to control one's emotions by accepting her/his deficiencies. Justice is a sustained or constant willingness to give others what they deserve. The LVQ was developed through four successive pilot tests representing over 1,000 managers. Both exploratory and confirmatory factor analyses were used to develop the 19 questions used in the questionnaire. The instrument is strongly positively correlated with relevant measures of authentic leadership ( $r = .90, p = .01$ ), ethical leadership ( $r = .93, p = .01$ ), and transformational leadership ( $r = .85, p = .01$ ).

The *Multifactor Leadership Questionnaire* (MLQ) was developed to determine the degree to which leaders exhibited transformational and transactional leadership. The MLQ has undergone many revisions during the past 20 years. The Form 5X contains five transformational leadership subscales, two transactional subscales, and two passive subscales of leadership that together form what is known as the full range leadership theory. The full range leadership model represented by the MLQ 5X had a goodness of fit (GFI) of .91 and the root mean squared residual (RMSR) was .04. Each was above and below their perspective cut-off criterion respectively.

## Method

One hundred and two participants in executive leadership training and graduate programs in leadership agreed to participate in the study. The participants provided a survey monkey link to two peers, two followers and a supervisor. The generic term for this assessment is often referred to as a “360 degree” assessment, as the leader is being rated from three different organizational viewpoints. The peers, supervisor and followers rated each participant on the *Multifactor Leadership Questionnaire* and the *Leadership Virtues Questionnaire*. All scores were completed before the onset of the leadership training.

## Descriptive Statistics

A total of 110 participants agreed to participate in this study. There were 72 females and 38 males. The sample ranged in age from 25 to 69 with a mean age of 44 years. There were 30 Black, 60 Hispanic and 20 White participants in this study. There were 36 small business (<500 employees), 47 mid-sized (501-1000 employees) and 27 large sized business (>1000 employees).

## Results

### *Analysis of Variance*

Analyses of variance were conducted to measure leaders’ fortitude and temperance. The results were not significant.

To analyze differences in leader prudence, a two-way Analysis of Variance was run. A significant main effect was found for the size of the organization in which the leaders lead. The results of a Scheffe post-hoc analysis found that leaders of large businesses ( $M = 3.03$ ) were rated lower on prudence than leaders of medium-sized businesses ( $M = 3.37$ ) or leaders of small businesses ( $M = 3.52$ ). Gender as a main effect was not significant.

Table 1. Two-Way ANOVA for Ratings Between-Subjects Effects

| Source        | Type III Sum of Squares | df | Mean Square | F      | Sig.  |
|---------------|-------------------------|----|-------------|--------|-------|
| Size          | 4.202                   | 2  | 2.101       | 12.282 | 0.000 |
| Gender        | 0.009                   | 1  | 0.009       | 0.055  | 0.814 |
| Size * Gender | 1.644                   | 2  | 0.822       | 4.804  | 0.010 |

Figure 1 illustrates the interaction of gender and organizational size. Female leaders in both small and mid-sized organizations were rated remarkably similarly on prudence. Male leaders in small businesses, however, were rated substantially higher than males in mid-sized organizations.

Figure 1. Interaction of gender, organizational size and prudence

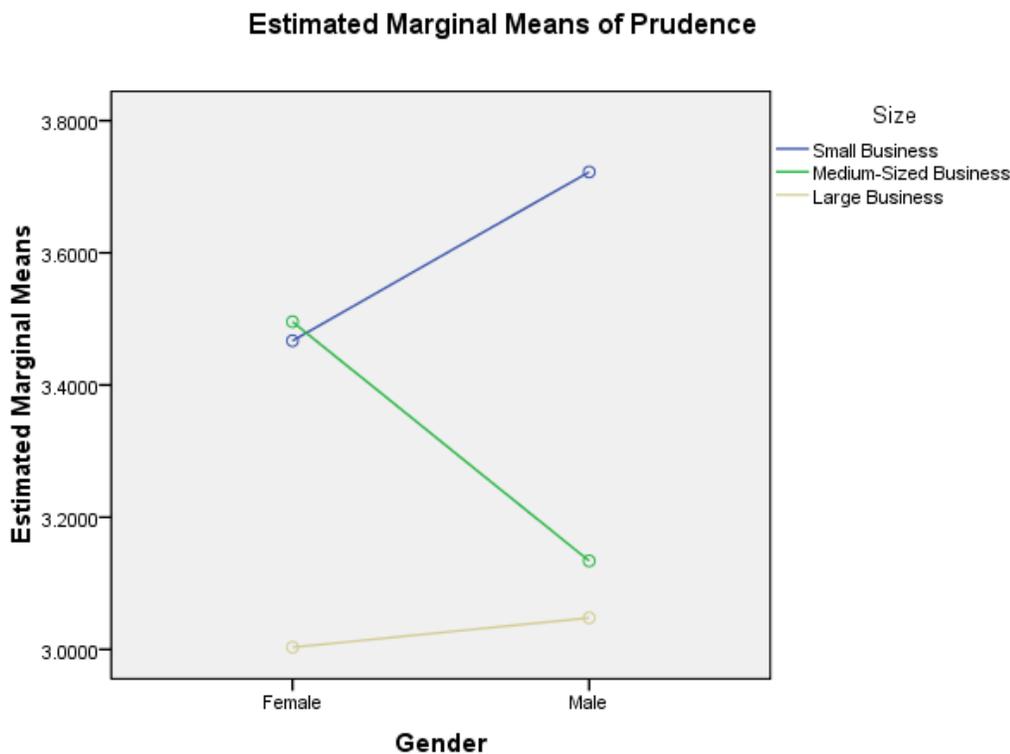


Table 2 provides the results of a Two-Way ANOVA for leader justice. Similar to prudence, a significant main effect was found for the size of the organization and a significant interaction effect was found for gender and organizational size.

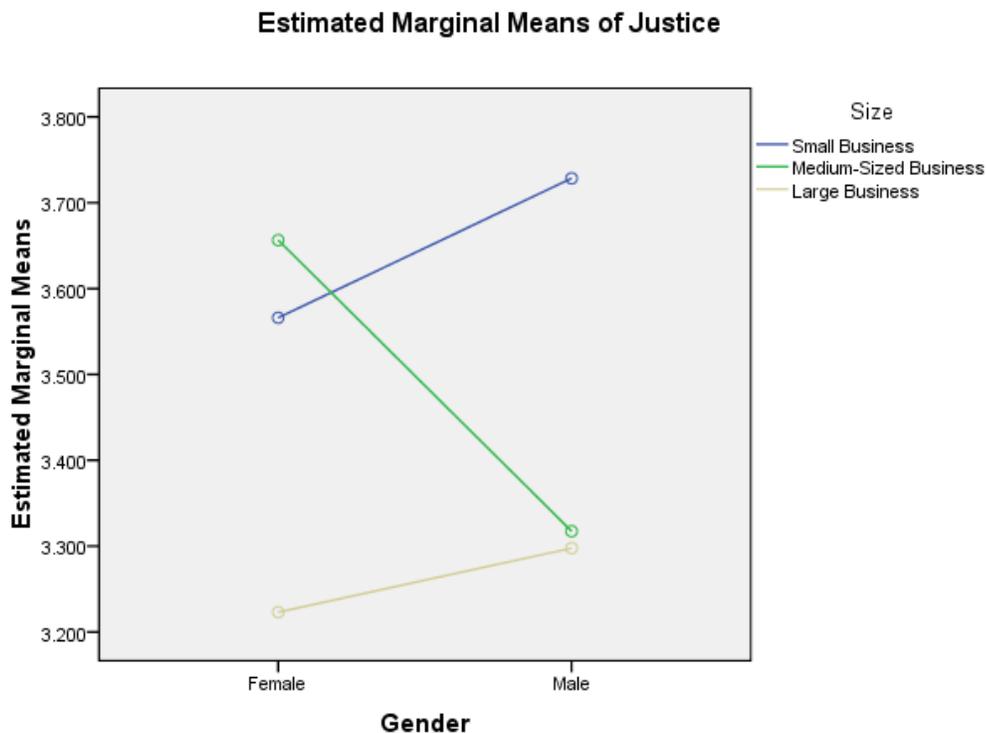
Table 2: Two-Way ANOVA for Ratings Between-Subjects Effects

| Source        | Type III Sum of Squares | df | Mean Square | F     | Sig.  |
|---------------|-------------------------|----|-------------|-------|-------|
| Size          | 1.976                   | 2  | 0.988       | 6.720 | 0.002 |
| Gender        | 0.026                   | 1  | 0.026       | 0.176 | 0.676 |
| Size * Gender | 1.234                   | 2  | 0.617       | 4.194 | 0.018 |

The results of a Scheffe post-hoc analysis found that leaders in large organizations ( $M = 3.26$ ) were rated lower on demonstrating justice than leaders of small ( $M = 3.60$ ) and mid-sized organization ( $M = 3.54$ ).

Figure 2 illustrates the interaction of justice and organizational size. Both males and females rated as being more justice in small organizations. Males rated higher than females in a smaller organization. Females were more just in mid-sized organizations.

Figure 2. Interaction of gender, organizational size and justice



### *Multiple Regression*

In order to further explore the relationships among organizational size, leader virtues and transformational leadership, two additional analyses were conducted. First, a multiple regression was run using the four leader virtues as predictors of transformational leadership. Leader prudence was a strong predictor ( $R^2 = .21$ ,  $B = .47$ ,  $p = .00$ ). A second analysis compared levels of transformational leadership among leaders of small, mid-sized and large organizations. The results of a Scheffe post-hoc analysis found that leaders of small organizations ( $M = 3.21$ ) were rated as more transformational than leaders of large organizations ( $M = 3.01$ ),  $p = .04$ .

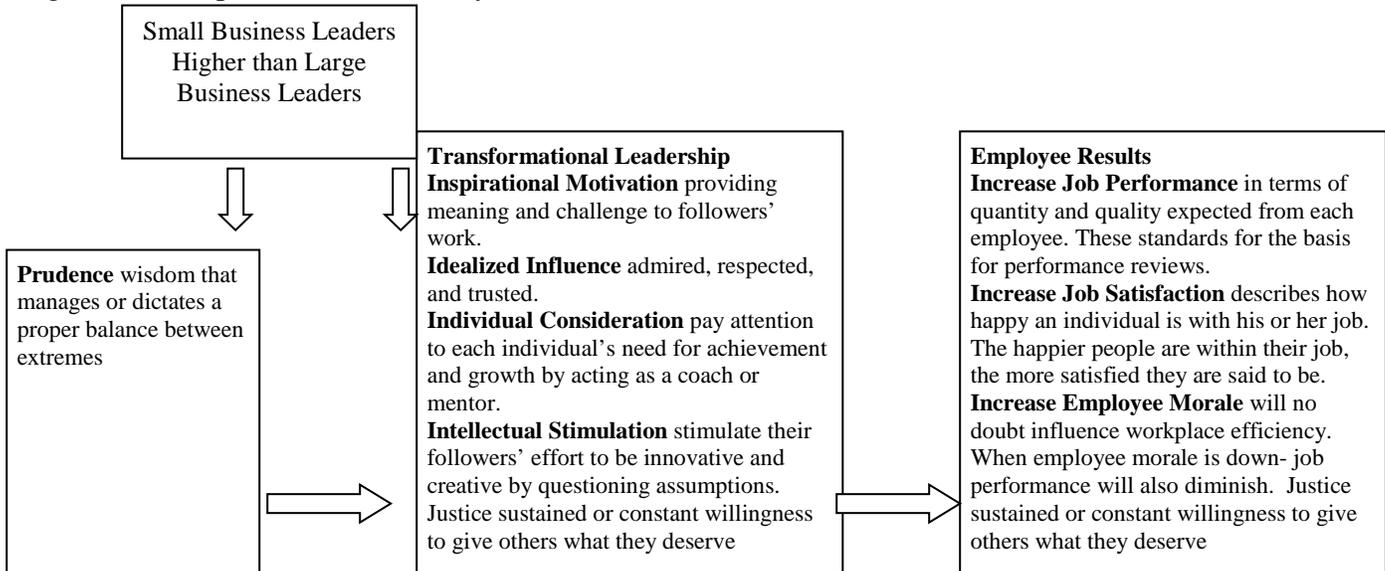
### **Discussion**

There are several possible explanations for the findings for the small and mid-sized leaders and why they rated higher on prudence and justice. As leaders of smaller organizations, these leaders constantly switch roles and adapt to meet the needs of the business. One of the organizational types that Mintzberg identified with a large organization is the machine bureaucracy. The machine organization has a tight vertical structure in which functional lines go all the way to the top. Large organizations run effectively and efficiently using a machine bureaucracy form of organization. This bureaucratic system would not be effective, however, in a small to mid-sized organization because an organization of this size needs a leader who is able to problem solve while also being able to personally perform other range of activities.

In the past, many people preferred large companies as they offered a better job security. However, with the current trend of employee downsizing among large organizations, there is little or no job security. Unlike large companies, in small organizations employees have opportunities to interact with “upper management” as there are typically few hierarchical levels between the small business CEO and all of the workers. This goes a long way in building a loyal and committed workforce. Developing a strong community in an organization is a key component in keeping employees satisfied and motivated.

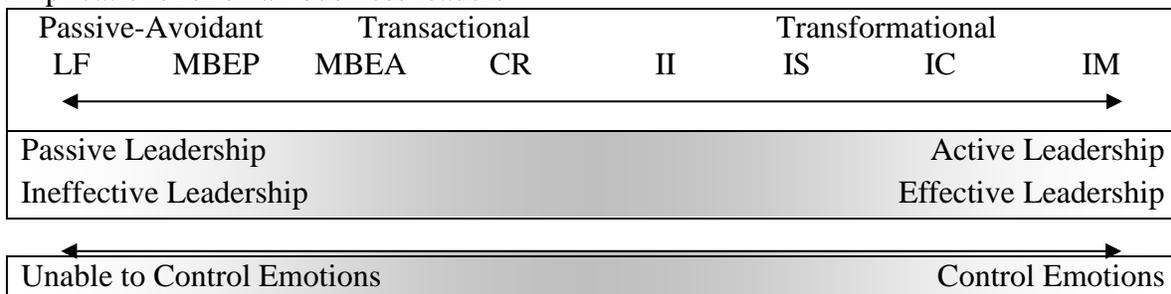
The scholarly literature confirms that transformational leadership produces increased follower job performance, job satisfaction and morale. Collectively, this study found that the strongest predictor of transformational leadership was leader prudence. Leaders of small businesses were rated higher than leaders of large businesses on both prudence and transformational leadership. Figure 3 provides a visualization of these inter-relationships.

Figure 3. Conceptual model for study results



The implications from this study for small business leaders center on the concept of balancing the many activities with which they are charged daily. Prudently controlling one's emotions as she/he searches for a balance among the various interests of workers, vendors, customers and other stakeholders is critical. This form of leader prudence is tightly couple with perceptions of transformational leadership, which is in turn coupled with an array of positive employee outcomes.

Figure 4. Implications for small business leaders



### Suggestions for Small Business Leaders

Small business leaders face a multitude of obstacles and one thing that is important for them to realize is that they must not lose their passion. As leaders of small organizations they will encounter unique and challenging situations but it will those situations that will help take them to the next level in their career. Jill Geisler talks about three things that will help managers: strategic thinking, emotional intelligence, and a passion for helping people. Using these three basic concepts will allow the manager to become a leader that employees trust and want to work with. (Schawbel, 2012)

According to Lipman, one of the fundamental lessons of leadership is that being a leader means that it is not about you, it is about your followers. Some of the best leaders of our team have devoted their time and energy inspiring the people that they work with and work for. When leaders focus on the customers, employees, direct reports, share holders, and focus less on them they will see that these people will in turn take care of them. (Lipman, 2012)

### References

- Brown, J. B. (2011). The building of a virtuous transformational leader. *The Journal of Virtues & Leadership*, (2) 1, p. 6-14. © 2011 Regent University School of Global Leadership & Entrepreneurship.
- Davis, A., & Rothstein, H. (January 01, 2006). The Effects of the Perceived Behavioral Integrity of Managers on Employee Attitudes: A Meta-analysis. *Journal of Business Ethics*, 67, 4, 407-419.
- Dutta, S., & Banerjee, S. (2011). Ethical Practices towards Employees in Small Enterprises: A Quantitative Index. *International Journal of Business Management & Economic Research*, 2(3), 205-221.
- Enderle, G. (2004). Global competition and corporate responsibilities of small and medium-sized enterprises. *Business Ethics: A European Review*, 13 (1), pp.51-63.
- Engelbrecht, A.S., Van Aswegen, A.S., Theron, C.C. (2005). The Effect of Ethical Values on Transformational Leadership and Ethical Climate in Organisations. *South African Journal of Business Management*, 36(2), 19-26.
- Hood, J. N. (2003). The Relationship of Leadership Style and CEO Values to Ethical Practices in Organizations. *Journal of Business Ethics*, 43(4), 263-273.
- Jalil, M., Azam, F., & Rahman, M. (2010). Implementation Mechanism of Ethics in Business Organizations. *International Business Research*, 3(4), 145-155.
- Johnson, C. E. (2009). Meeting the ethical challenges of leadership: Casting light or shadow (3rd ed.). Los Angeles: SAGE.
- Kaptein, M. (2009). Ethics Programs and Ethical Culture: A Next Step in Unraveling Their Multi-Faceted Relationship. *Journal of Business Ethics*, 89(2), 261-281. doi: 10.1007/s10551-008-9998-3.
- Kouzes, J. M., & Posner, B. Z. (2007). The leadership challenge (4th ed.). San Francisco: Jossey-Bass.
- Larsson, G., Eid, J. & Kjellevold Olsen, O. (2010). Leadership and Ethical Justice Behavior in a High Moral Intensity Operational Context. *Military Psychology*, 22(1), 137-156.
- Lipman, V. (2012, September 7). It's not about you. (The best leaders focus on others.). Retrieved September 23, 2012, from <http://www.forbes.com/sites/victorlipman/2012/09/17/its-not-about-you-the-best-leaders-focus-on-others/>
- Lloyd, H. R., & Mey, M. R. (2010). An Ethics Model To Develop An Ethical Organisation. *South African Journal Of Human Resource Management*, 8(1), 1-12. doi:10.4102/sajhrm.v8i1.218.
- Martin, K., & Cullen, J. (2006). Continuities and extensions of ethical climate theory: a meta-analytic review. *Journal of Business Ethics*, 69(2), 175-194. doi: 10.1007/s10551-006-9084-7.
- O'Fallon, M., & Butterfield, K. (January 01, 2005). A Review of the Empirical Ethical Decision-Making Literature: 1996-2003. *Journal of Business Ethics*, 59, 4, 375-413.
- Quinn, J. J. (1997). Personal Ethics and Business Ethics: The Ethical Attitudes of Owner/Managers of Small Business. *Journal of Business Ethics*, 16(2), pp. 119-127.
- Rahschulte, T. (2010). Virtues for leading change. *The Journal of Virtues & Leadership*, (1) 1, pp. 15-24. © 2010 School of Global Leadership & Entrepreneurship, Regent University.
- Riggio, R. E., Zhu, W., Reina, C., & Maroosis, J. A. (January 01, 2010). Virtue-Based Measurement of Ethical Leadership: The Leadership Virtues Questionnaire. *Consulting Psychology Journal*, 62, 4, 235-250.

- Schawbel, D. (2012, September 22). How to be a great manager that employees want to work with. Retrieved September 23, 2012, from <http://www.forbes.com/sites/danschawbel/2012/09/22/how-to-be-a-great-manager-that-employees-want-to-work-with/>
- Spence, L. J. (1999). Does Size Matter? The State of the Art in Small Business Ethics. *Business Ethics: A European Review*, 8(3), pp.163-174.
- Toor, S.u.R., & Ofori, G... (2009). Ethical leadership: Examining the relationships with full range leadership model, employee outcomes and organizational culture. *Journal of Business Ethics*, 90, 533-547.
- Treviño, L., & Weaver, G. R. (2001). Organizational Justice And Ethics Program "Follow-Through": Influences On Employees' Harmful And Helpful Behavior. *Business Ethics Quarterly*, 11(4), 651-671.
- van Auken, P. M., & Ireland, R. (1982). Plain Talk About Small Business Social Responsibility. *Journal Of Small Business Management*, 20(1), 1-3.
- Verbos, A., Gerard, J., Forshey, P., Harding, C., & Miller, J. (2007). The Positive Ethical Organization: Enacting a Living Code of Ethics and Ethical Organizational Identity. *Journal Of Business Ethics*, 76(1), 17-33. doi: 10.1007/s10551-006-9275-2.
- Wang, G., Oh, I. S., Courtright, S. H., & Colbert, A. E. (2011). Transformational Leadership and Performance across Criteria and Levels: A Meta-Analytic Review of 25 Years of Research. *Group & Organization Management*, 36(2), 223–270.

# **The New Generation of Massively Open Online Courses (MOOC) and Their Potential Impact on Higher Education Worldwide**

Dianne Welsh, University of North Carolina at Greensboro  
Mariana Dragusin, Bucharest University

***“Big breakthroughs happen when what is possible meets what is desperately necessary.” (Thomas Friedman, New York Times, May 15, 2012)***

## **Abstract**

On-line education is not a novelty for Higher Education Institutions. What may prove revolutionary is providing for free, all around the world, high standard courses, from the world’s most renowned professors and from the best universities. This empirical study, in progress, examines the main steps in the evolution of the new Massively Open Online Courses (MOOC) phenomenon, focusing on its emerging strong competitors - “Coursera”, “Udacity” and “edX”, xMOOC types. It also outlines xMOOCs’ strength and weaknesses and explores their potential impact on HEI, including those in developing countries, providing effective strategies they can be implemented in the near future.

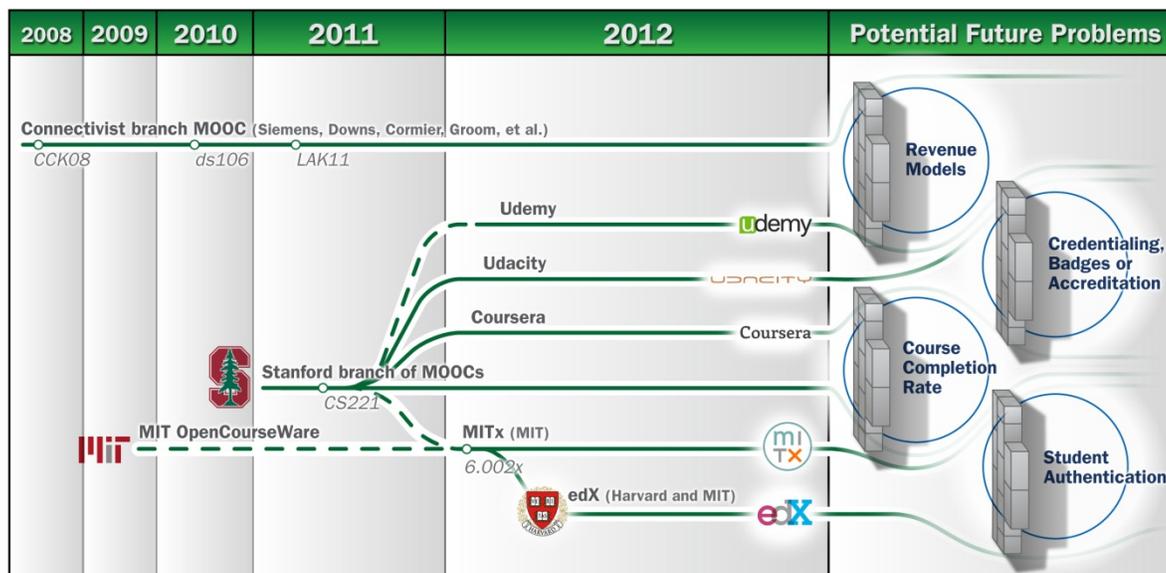
## **Introduction**

In the effort to transform themselves with global, social, political, technological, and learning research trends, Higher Economic Institutions (HEI) are in the middle of “transformative changes” both at conceptual level (new models of education, advancement of social learning theory) and technological level (eLearning, mobile devices, learning networks) (Siemens & Tittenberger, 2009). In this process, on-line education is definitely not a novelty for Higher Education Institutions (HEI). Many universities have offered Web-based courses for years. In the past, the proliferation of sometimes questionable quality online offerings raised skepticism as to their future. The online courses, offered for years by many universities, were mainly designed according to the traditional lecture format, which might explain, at least partly, their lack of success. The Fathom platform, Columbia University’s for-profit online learning portal, is among the most known example. Compared to just 65,000 students enrolled on Fathom, in three years of activity (2000-2003) (Redmon, 2012), the latest emerging massive online courses (MOOC) succeeded in registering tens of thousands, in only a few months. Actually these numbers have inspired the term MOOC, proposed in 2008 by the Canadian professor George Siemens.

The movement toward MOOCs is quickly amplifying and intensifying, as more and more “actors” announcing their entrance, during the last five years, as captured in the diagram below (Hill, 2012).

The new platforms, Udacity, Coursera, edX, all launched in 2012, are offering free top quality MOOCs, with already spectacular results. The entrance in this endeavor of opening the digital doors to the masses, of some of the most renowned U.S. universities, including Stanford, Harvard, and MIT, among others. This is rapidly amplifying a phenomenon that marks a major shift in the expansion of the digital learning. In the context of slow economy, rising tuition fees associated with unprecedented U.S. student debt, MOOCs offensive, has, in the author’s opinion, the potential to change the higher education landscape forever, not only in U.S., but around the world.

## Four Barriers Faced by MOOCs



Source: Hill, 2012

This study examines the main steps in the short but robust evolution of the MOOC phenomenon, focusing on the most recent highly refined online course offerings by top universities. We outline MOOCs' strengths and weaknesses and explore its potential impact on HEI, including those in developing countries. Effective strategies to cope with these major changes in Higher Education are also provided. Further research implications are discussed to better explore the size of the market, potential, and features.

### History of MOOCs

According to the short MOOCs' history, "Connectivism and Connective Knowledge" (CCK08), by George Siemens and Stephen Downes, from Manitoba University in Canada is considered to be the first MOOC, offered for free, to anybody in the world (Downes, 2011). It attracted 2,200 participants worldwide. It was preceded by Wiley Wiki, who pioneered the idea of open online content, as part of the open education movement (Iiyoshi and Kumar, 2008), that can be edited by course participants.

Udemy started its online activity in 2010, offering hybrid (free and charged) courses (<http://www.udemy.com/static/faq>). The new platforms -*Udacity*, *Coursera* and *edX*, launched in 2012, registered each more than 100,000 learners by proposing an integrated experiential and interpersonal approach. Based on the latest technological advances, on the high ranked universities backing them, *these online classes mark a real shift in the field of MOOCs*. With greatly improved quality of online delivery platforms, with many options to personalize material and the ability to register and analyze huge amount of data related to students' experiences in order to reach the best approach, the *new wave* of MOOCs are likely to attract millions of people from around the world. They are already offering online courses at high standards, at no charge, to anyone with an Internet connection, willing to learn from world renowned scholars and scientists.

A real race has started among the emerging platforms, having as main competitors *Udacity*, *Coursera*, and *edX*, whose main features, most of them common, are outlined below. Information is still scarce.

The defining milestone in the current redefined MOOC outreach, partly inspired by Khan Academy (<http://www.khanacademy.org>), was the Stanford-originated "Introduction to Artificial Intelligence" course, supporting online sessions and automatically-graded assignments and offering certificates of participation. It

was initiated by two professors - Sebastian Thrun and Peter Norvig, with great success in 2011 (more than 100 thousand people signed up). The experiment was a spin-off for the two different projects, which both became operational in February, 2012: *Udacity and Coursera*.

*Udacity* is a private educational organization founded by a former Stanford professor Sebastian Thrun along with David Stavens, and Mike Sokolsky. Its stated mission: is "to bring accessible, engaging, and effective higher education to the world; we believe that higher education is a basic human right, and we seek to empower our students to develop their skills in order to advance their careers" ([www.udacity.com](http://www.udacity.com)). There are (up to date) 14 classes offered for free online, including one of Entrepreneurship ("How to build a Start-up: The Lean Launch Pad", taught by Steve Blank). Testing is available online (for free) or, for a proctored exam, in one of the 4000 testing centers in more than 170 countries (for a fee of 89\$) (<http://blog.udacity.com/2012/06/udacity-in-partnership-with-pearson-vue.html>). Upon completing a course, students receive a certificate of completion (sent by e-mail, as PDF file, suitable for framing) indicating their level of achievement, signed by the instructors, at no cost. Udacity claim to have had more than 112 thousand of students enrolled ([www.udacity.com](http://www.udacity.com)).

The online platform called "*Coursera*" ([www.Coursera.org](http://www.Coursera.org)) was initiated by two Stanford professors – Daphne Koller and Andrew Ng, who founded a social entrepreneurship company in Mountain View, California (with a \$22 million venture funding), and partnered with their university, with the aim to make the best higher education available to as many people as possible. "Our mission is to teach the world and make higher education available for everyone" is emphasizing A. Ng (Mitchell, 2012). At the point it became operational (February 2012), 3 other universities have joined the program, raising the online available courses to 43. According to co-founder Daphne Koller (2012), preliminary results presentation, more than 640 thousands of students from 190 countries took the courses, 1.5 million enrollments, 6 million quizzes and 14 million video views were registered on the Coursera Web-site during a half year time-span. The number of actual top universities joining the project is continuously rising, reaching 19 by the end of August (28th), 2012 (out of which 5 are international: Canada; India (2); Scotland; Switzerland) and so is the number of courses – 120 (each with a definitive start date, and comprehension testing), in 16 categories, ranging from 5 to 12 weeks long (<https://www.coursera.org/#courses>) EPF Lausanne will offer courses in French, opening up access for students in half of Africa (Simon 2012). A Coursera class, with real deadlines and real grades, has 3 main components (Mitchell, 2012):

- the video lecture (divided in 8-12 min. units, each representing a coherent concept; questions are inserted too, every few minutes) and reading materials, accompanied by interactive quizzes, tailored learning, and homework help from students' digital peers;
- peer grading (using theory from crowdsourcing technology) allowing the assignments up to 200.000 papers; students are rewarded for helping to grade other students, after they can prove that their assessments match the same grade that the instructor gives on a set of student homework; ([www.coursera.org/faq](http://www.coursera.org/faq))
- class forum (based on a technology that identifies and parses duplicate questions, and it auto-suggests related questions as students type; it also uses a stack overflow-style reputation system to surface the best conversations).

Even though, the Coursera grading technology is best suited for courses having structured outcomes (easy to test and quantify), by using peer grading (to assess more complex work, such as essays or algorithms), humanities, social sciences, business and other classes could be included in the offer as well (starting fall 2012).

Willing to be part of MOOC race, Harvard University and the Massachusetts Institute of Technology (MIT), considered “late adopters” (Lewin, 2012), decided to partner (official announce was made in May., 2012) to form *edX* ([www.edX.org](http://www.edX.org)), a not-for-profit venture (based in Cambridge, Massachusetts), with a joint funding of 60mil.\$ (30 mil.\$ each). EdX, that “features learning designed specifically for interactive study via the web” ([www.edx.org/about](http://www.edx.org/about)) is willing to providing on its open-source online platform, high standard affordable classes, involving scheduled instruction, supervision, and testing, for students of all ages, means and nations, for free. Its primary goal is to “improve teaching and learning on campus by experimenting with blended models of learning and by supporting faculty in conducting significant research on how students learn” ([www.edx.org/faq](http://www.edx.org/faq)). The edX starting point was the on-line course, launched (Spring 2012) by MIT professor Anant Agarwal (now first edX president), “6.002x Circuits and Electronics” with a reach of 150,000 students from over 160 countries, spanning 14 weeks, with an identical curricula to that of the classroom based course. It included 2-4 lecture hours (interspersed with online exercises, optional video tutorials, with solved problems and math refresher), homework, problem set, and an online lab, which involved building and testing simulated circuits. The evaluation was based on a midterm and a final examination.

Several extra features (like wiki-style forums and a tailored assessment of progress etc.) will be added to the currently 7 courses offered on fall, 2012. The graduates can earn a certificate of completion (for free, in 2012, and probably for a small fee in the future), issued under the name of the university providing the course. EdX generated high interest among several other universities. University of California, Berkeley has already joined the venture and other 120 universities have expressed interest in joining the edX partnership, according to edX web-site.

A much smaller competitor, more of a niche platform, is *Codecademy* (launched in late 2011), providing computer coding courses (with no deadlines), for free. Its stated mission is “to turn a world of tech consumers into one of empowered builders” ([www.codecademy.com/about](http://www.codecademy.com/about)).

This latest generation of MOOCs is ideologically different compared to the previous one. In that sense, Simens, G. (Aug., 2012) identifies *two types* of MOOCs:

- cMOOCs, corresponding to the first generation, started in 2008, focusing on knowledge creation and generation, like CCK08 and other; learners’ creativity, autonomy and networking are encouraged; learners are expected to enrich the course’s content;
- xMOOCs, belonging to the second generation, started in 2012, based on a more traditional format, with fix structured content, centralized discussion forum support and automated or peer graded evaluation (like Coursera and edX); students are required to master what they are taught.

We believe xMOOCs will most probably tend to have a greater impact due to their main strengths: high quality content provided by world-known partnering universities; existence of deadlines and grades; the attribute to be costless; consistent financial support for development.

However, they will have to overcome several *barriers* in order to fully succeed. We agree with the following 3 (out of 4), barriers (Hill, 2012): developing revenue models to make the concept self-sustaining; delivering valuable signifiers of completion such as credentials, badges or acceptance into accredited programs; authenticating students in a manner to satisfy accrediting institutions or hiring companies that the student identify is actually known. In our opinion, the low rate of completion (under 10%) is not a real barrier.

For the moment, all competitors succeeded in raising venture funds, but *generating revenues may become critical in the future*. One considered option to monetize MOOC free platforms is *charging students for completion certificates* (like Udacity already does for the proctored exams). With lower costs (a posted

course can run practically on itself) and significantly larger number of graduates than on campus, fees can be established at very low, affordable levels (around 100\$/ certificate). A. Ng from Coursera suggested that some schools may *sell branded certificates* (Weissmann, 2012). Another important source, while having detailed records on each student achievements, can be *charging employers interested in identifying top students*. Both Coursera and edX are exploring the issue (Simon, 2012). Udacity is willing to use a “recruiter fee model”, retaining a commission for each talented graduate discovered and build connections with, companies like Twitter or Amazon (Redmon, 2012). Hosting targeted online ads might also be considered at some point (Mitchell, 2012).

While Udacity is a rather individual endeavor, Coursera and edX are relying on top university partnerships, strategy that might prove more appropriate. For the moment, Coursera, with a faster growth (increasing prestigious partners, higher number of provided courses) and higher media visibility seem to be in the top. However, the quality of a course presentation, as a whole, will be an important differentiator.

In the MOOCs race, as an amplifying phenomenon, the new top generation of xMOOCs, induces undeniable benefits, while raising questions too.

### **Potential Benefits of xMOOCs**

Since 2010, the U.S. Department of Education pointed out, in its “Meta-Analysis and Review of Online Learning Studies”, that students learning online performed, on average, modestly better, than those learning the same material through traditional face-to-face instruction, further enhancing online learning development. xMOOCs might be the final stage in the process, and it is expected to draw millions of students and adult learners globally, due to its *indisputable benefits*.

The free xMOOCs *can reach a high number of students* all over the world, with no space boundaries, which in the traditional teaching would need decades, or more for each of the involved professors. Practically *each person, with access to the Internet, is eligible*, with no age, nationality, occupation, health, financial resources etc. discrimination. xMOOCs mark an exceptional chance to education for people living in poor countries, with low incomes, for people with disabilities, no matter the purpose of their online endeavor: to learn for a new job, to adapt to new demands at the existing job, or just for knowledge enrichment, etc.

Especially with xMOOCs, students can benefit professionally and personally of *free and high quality course content*, that follows the same rigorous standards as the classroom based ones. Competing platforms, Coursera and edX, have officially claimed to maintain similar quality and requirements embedded. As the edX president pointed out on the web-page “the reach changes exponentially, but the rigor remains the same” ([www.edx.org/faq](http://www.edx.org/faq)). Also, the fact that until now, on average, less than 10% of the students have pass all exams can be considered an argument in that sense.

Students can also enjoy a *high quality learning experience, for free*. xMOOCs designed formats, based on the advanced technology and using strict deadlines and grades, have strong pedagogical foundations, helping students to understand new concepts fast and effectively, to ensure their engagement and to assist long-term retention. xMOOCs provide them *high flexibility*, through the possibility to access the same content multiple-times, from anywhere and anytime. Students can feel free to halt, speed through the content, rewind, and repeat questions and / or answers without the fear of being judged or patronized. They can afford multiple attempts to demonstrate their new knowledge. Feed-back is even more frequent than in traditional format, favoring an accurate self-monitoring of each student own progress. As professor D. Koller underlines (Koller, 2012), the median response time on Coursera’s forum was an amazing 22 min., less than that she could provide to her students on Stanford campus.

*Personalization* is another xMOOCs' dimension that students can notice and enjoy. During the learning process, additional preparatory or enrichment materials are also available but optional, according to each one's background and desire. Practically each can have his/her own trajectory in engaging, understanding and mastering the knowledge provided by the course. With instant feed-back, "no student can move on without knowing the answer compared to traditional classroom lecture" (Koller, 2012). Also by analyzing the recorded data on the platform, students' misconception on a certain concept can be identified and a targeted error message can be sent.

Students have *the opportunity to experience the high interactivity of xMOOCs format* not only in relation with the computer/ smartphone etc., but also with the other fellow students. It is about *joining a global community* of thousands of students while learning alongside with them and while grading them. Coursera, for example has now the largest peer-grading pipeline ever devised, where tens of thousands of students are grading each other's work successfully (Koller, 2012). Peer grading can add value to the learning experience. The chance to communicate and work for assignments with people from different cultures is, in itself, an uplifting experience. Collaborative learning, as highly effective method is also part of xMOOC experience. Students can collaborate in many ways: posing questions and answers on forums, sharing information, forming virtual or physical study groups. Coursera has registered already proves of that.

The opportunity to choose/ try several domains may also favor, for free, *a better match* between one's aptitudes, interests and a certain profession requirements.

*The potential positive outcomes* of those who take xMOOCs and graduate can manifest themselves both at professional and personal levels. Based on completion certificates, students might get credit points from their local on campus universities and, by speeding up the graduation process, they could save time and money. Some, of them, like University of Washington and University of Helsinki already announced that they will offer college credit for Coursera MOOCs (Chea, 2012). Michel Winckler, a mathematician at Heidelberg University let his doctoral students to count online class toward their required coursework (Ferenstein, 2012). There is also, an encouraging feed-back related to *future certificate recognition among employers*. A. Ng from Coursera says that "Faced with a shortage of engineering talent, many tech companies have already asked for introductions to students who successfully completed his online course" (Ferenstein, 2012). Nevertheless, xMOOCs has the potential to transform into reality *the lifelong learning principle*, by offering a valuable body of knowledge, whether "just to expand our minds or to change our lives" (D.Koller, June, 2012). The opportunity for older people to update their knowledge, to acquire new skills according to work place new requirements, is increasing their chances to keep up with their jobs, or to get better ones.

*Undiscovered talents*, especially in countries with low access to higher education, could manifest themselves through MOOCs, favoring a "wave of innovation" (Koller, 2012).

In the future, it may become feasible for companies, to outsource some of the training activities, at low or no costs, by simply requiring their personal, xMOOCs official certificates of completion, on a certain needed topic, in an established time span.

At a more general level, xMOOCs can give unparalleled insights into the human learning. By tracking all online activity, huge amounts of data are being generated and will be subject to scientific research about how students learn, and how technologies can facilitate effective teaching both on-campus and online. The most effective learning strategies could be designed as a result.

*Several weaknesses of the MOOCs* have been pointing out. A new study of Inside Higher Ed and Babson Survey Research Group, shows that two thirds of the inquired professors are reluctant to online education, considering that its learning outcomes are inferior to those of the campus based education (Kolowich, 2012). Lack of face to face communication, lack of frequent feed-back from a professor, or irreplaceable classroom experience are arguments frequently mentioned by the skeptics. There were also questions raised regarding students' evaluation (due to the difficulty to check who is really completing the assignments) and the value of an online degree. Assessing online written work for fields (like humanities, social sciences, business) that require critical thinking and answers that are difficult to categorize as right or wrong, is also considered very challenging. As the two co-founders acknowledged, Coursera is still, in many ways, a "work in progress", subject to continuous improvements. They have recognized that online education is jet immature and solutions to "soft" aspects like: the optimal reading and writing students should be asked to do; the proper level of social interaction; the value of face-to-face learning versus interacting in a forum etc. (Mitchell, 2012).

The authors of this paper consider that, economic, technological and social conditions are created for the higher education demand to meet xMOOCs flexible, effective and efficient offer. Despite its imperfections, xMOOCs, especially through the powerful online platforms Coursera, edX and Udacity, have the potential to generate unprecedented impact on higher education all over the world. Some of the effects on HEI, including those in developing countries, are addressed in the following section.

### **Implications and Future Research**

In its 2011 "Survey of online learning results", Babson Survey Research Group shows a growing trend in the proportion of students taking online courses, at global level. Their number was over 6.1 million during the fall 2010 term. Also, one third of all students in higher education were involved in at least one on-line course (Chmura, 2012). According to the same study, the growth of online enrollment was 10%, while in the overall higher education student population was only 2%. Taking into consideration that the results do not reflect the entrance on the MOOC "scene", of the powerful competitors Coursera, edX and Udacity, that will ensure universal access to free high standard education, the near future impact will be, most probably, of a much higher amplitude. *It will affect very differently HEI all over the world.* However, in our opinion, *all will have to drastically reshape their strategies.* Even though there is an academic minority questioning the quality of online education, already, 65% of HEI now say that online learning is a critical part of their long-term strategy (Chmura, 2012).

In US, the leading MOOCs country, high ranked personalities displayed already positive attitudes toward the MOOC phenomenon, ranging from "experiment to revolution". The president of the American Council on Education, Molly Corbett Broad said that (MOOC) "holds the potential for serving many, many hundreds of thousands of students in a way we simply cannot today" (Chea, 2012). The UC Berkeley Chancellor, Robert Birgeneau believes that "it will ultimately revolutionize education" (Chea, 2012). Also, the director of the Center for 21st Century Universities, Richard DeMillo, a computer science professor from Georgia Institute of Technology said: "We're in the middle of a potentially groundbreaking experiment. Really big things could come out of it" (Chea, 2012). Criticized by many for preserving for hundreds of years the same lecture format, HEI might face a disruptive competition. "MOOCs provide disruptive competition to the status quo," Russ Whitehurst, director of the Brown Centre on Education Policy at Brookings, said (Lewin, 2012). In Canada, George Siemens, the "father" of MOOC concept, has sent an open letter alerting Canadian universities and institutions that active and prompt reactions are required in the new context. On the other side of the spectrum, people like Phil Hanlon, a provost at the University of Michigan, believes that the new technology would enhance the campus experience by combining video watching with hands-on activities that can't be replicated in cyberspace (Simon, 2012).

One of the dimensions the impact can be judged is the position in the ranking of universities. In our opinion, some of the top ranked universities, highly involved, whether as platform initiators (like Stanford, Harvard, MIT), or joining partners, will have, the chance to increase their visibility and prestige by attracting students world-wide. They will also target students for post-secondary education. "The Georgetown Center on Education and Workforce forecasts that "over half of all jobs created that will require post-secondary education of some type will be filled by people with associates degrees or occupational certificates. Small companies need those kinds of workers" (Bolden & Miller, 2012).

The effects can be differentiated *according to the field of study too*. High structured disciplines with easy scalable outputs will be the first affected by their online counterparts.

By researching the data from all tracked activity on the platform, top universities can come up with improved learning techniques for both on campus and online. They can also identify and attract talented people from around the world. However, all these privileged HEIs will have to deeply reconsider their strategies, including those related to traditionally high tuition fee practices.

Universities, that are at the end of the ranking lists, mainly in developing countries, some with major economic issues, including high budgetary constraints, will have to struggle more than those in developed ones. Faced with increased educational opportunities, at higher quality and lower costs students will choose more and more xMOOCs. In the present, the majority of learners are from outside US. Udacity already reported this situation for two-thirds of its students (Redmon, 2012) and Coursera for 75% of them, with Brazil, Britain, India and Russia being the most important markets (Kolowich, S., 2012). Even though the language barrier and some national legal issues (like certificate recognition, credit transfer etc.) will offer, at least for a while, some protection for these universities, their students will tend to opt for free top quality online courses, drastically reducing the burden of their education costs. An encouraging employers' attitude, toward probably better educated online graduates, will finally lead to a strong decline in the number of students. This will force universities, the ones who can survive, to dramatically redesign their strategies. Appropriate strategies can be than communicated and replicated.

Possible solutions lie in:

- In the organizational area: raising awareness among university members, toward the coming changes and involving them in the transformation process; encouraging them to take already existing MOOCs addressing online tools and their effective use; identifying and eliminating organizational culture's constraints of technological innovations, as recently suggested by (Schrire, S. & Levy, D., 2012)
- In the area of campus based system: consistent improvements of the quality of their students education experiences on campus will become imperative; by implementing modern, effective teaching practices, by focusing on discussions, debates that enhance students' creativity, the chances to retain students can improve; in the same direction would act using blended learning or admitting their students to take some of the MOOCs, while requiring extra work and conducting own evaluation process for credit transfer;
- In the area of online teaching, joining an existing elite oriented MOOC platforms, has many times low chances of fulfillment, but forming partnerships and building own platforms, with content that captures national/ local/ regional specificity might be, for some universities, a good solution;
- In the research area, the options are more generous: developing academic-business partnerships for applied research; partnering with state institutions for fundamental research;
- In the area of services: providing, for example consulting services; renting laboratories/ spaces, equipment for experimentation, with or without specialists for guiding (physically or remotely); recruiting services for local businesses.

All universities will enter a new phase of their evolution that requires an appropriate business model, which favors the complementarity between on campus and online education.

## Conclusion

MOOCs are a new and amplifying phenomenon, in the context of shrinking budgets and rising education costs. In the authors' opinion, the xMOOC type, encompassing Coursera, edX and Udacity advanced online platforms, with their free best quality content, have the potential to generate major changes among HEIs all over the world. All universities will need to adjust their online and on campus strategies. The most affected will be low ranked universities, situated mainly in developing countries. Further researches are needed in order to identify the amplitude of this phenomenon and evaluate the time frame for the required changes

## References

- Anderson, T. (2008). Towards a theory of online learning. In T. Anderson (Ed.), *Theory and practice of online learning*. Athabasca, AB: Athabasca University Press. Retrieved September 15, 2012, from <http://www.aupress.ca/index.php/books/120146>
- Bolden, C., & Miller, D. (2012, February 3). Big-boy NASA and small girl-led biz launch jobs. Retrieved September 13, 2012, from <http://dynamicshift.org/archives/big-boy-nasa-and-small-girl-led-biz-launch-jobs>
- Chea, T. (2012, August 10). Elite colleges transform online higher education. Retrieved September 5, 2012, from <http://finance.yahoo.com/news/elite-colleges-transform-online-higher-124855202.html>
- Chmura, M. (2011, November 9). New study: Over 6 million students learning online. Retrieved September 13, 2012, from <http://www.babson.edu/News-Events/babson-news/Pages/111109OnLineLearningStudy.aspx>.
- Codecademy. Retrieved September 14, 2012, from <http://www.codecademy.com/about> Coursera. Retrieved September 14, 2012, from <https://www.coursera.org/#courses>
- Downes, S. (2011) The MOOC guide. Retrieved September 9, 2012, from <https://sites.google.com/site/themoocguide/home>
- Edx. Retrieved September 14, 2012, from <https://www.edx.org/faq>
- Ferenstein, G. (2012, March 9). Move over Harvard and MIT, Stanford has the real “revolution in education”. Retrieved September 13, 2012, from <http://techcrunch.com/2012/05/09/move-over-harvard-and-mit-stanford-has-the-real-revolution-in-education/>
- Ferenstein, G. (2012, July 17). Coursera aims to make America's higher ed system interactive and public, secures \$22 million. Retrieved September 12, 2012, from <http://techcrunch.com/2012/07/17/coursera-aims-to-make-americas-higher-ed-system-interactive-and-public-secures-22-million/>
- Fini, A. (2009). The technological dimension of a massive open online course: The case of the CCK08 course tools. *The International Review of Research in Open and Distance Learning*, 10(5). Retrieved August, 2, 2012, from <http://www.irrodl.org/index.php/irrodl/article/view/643/1402>
- Friedman, T. (2012, May 15.) *New York Times*, Retrieved September 11, 2012, from <http://www.nytimes.com/2012/05/16/opinion/friedman-come-the-revolution.html>
- Hill, P., (2012, July 24). Four barriers that MOOCs must overcome to become sustainable model, Retrieved August 31, 2012, from <http://mfeldstein.com/four-barriers-that-moocs-must-overcome-to-become-sustainable-model/>
- Iiyoshi, T., & Kumar, M.S.V. (Eds.) (2008). Opening up education: The collective advancement of education through open technology, open content, and open knowledge. Cambridge, MA: The MIT Press.
- Koller, D. (2012). What we are learning from online education [Video file]. Retrieved August 12, 2012, from [http://www.ted.com/talks/lang/en/daphne\\_koller\\_what\\_we\\_re\\_learning\\_from\\_online\\_education.html](http://www.ted.com/talks/lang/en/daphne_koller_what_we_re_learning_from_online_education.html)
- Kolowich, S. (2012) Who takes MOOCs? Retrieved July 8, 2012 from <http://www.insidehighered.com/news/2012/06/05/early-demographic-data-hints-what-type-student-takes-mooc>

- Kolowich, S. (2012, June 21). Conflicted: Faculty and online education, 2012. Retrieved September 8, 2012, from <http://www.insidehighered.com/news/survey/conflicted-faculty-and-online-education-2012>
- Lewin, T. (2012, March 4). Instruction for masses knocks down campus walls. Retrieved September 6, 2012 from [http://www.nytimes.com/2012/03/05/education/moocs-large-courses-open-to-all-topple-campus-walls.html?\\_r=3](http://www.nytimes.com/2012/03/05/education/moocs-large-courses-open-to-all-topple-campus-walls.html?_r=3)
- Lewin, T. (2012, July 17). Universities reshaping education on the web. Retrieved September 13, 2012, from [http://www.nytimes.com/2012/07/17/education/consortium-of-colleges-takes-online-education-to-new-level.html?\\_r=3](http://www.nytimes.com/2012/07/17/education/consortium-of-colleges-takes-online-education-to-new-level.html?_r=3)
- Mary@Udacity. (2012, June 1). Re: Udacity in partnership with Pearson VUE announces testing centers [Web log post]. Retrieved September 9, 2012, from <http://blog.udacity.com/2012/06/udacity-in-partnership-with-pearson-vue.html>
- Mitchell, J. (2012, April 17). Solving college with big data. Retrieved September 9, 2012 from [http://www.readwriteweb.com/archives/solving\\_college\\_with\\_big\\_data.php](http://www.readwriteweb.com/archives/solving_college_with_big_data.php)
- Redmon, K.C. (2012, June 28). Professors without borders. Retrieved July 10, 2012, from (<http://www.prospectmagazine.co.uk/magazine/online-universities-udacity-grand-challenge-david-stavens-dave-evans/>)
- Schrire, S., & Levy, D. (2012). Troubleshooting MOOCs: The case of a massive open online course at a college of education. *Proceedings of World Conference on Educational Multimedia, Hypermedia and Telecommunications 2012*, 761-766. Chesapeake, VA: AACE.
- Siemens, G. (2008). MOOC or mega-connectivism course. Retrieved August 7, 2012, from <http://lrc.umanitoba.ca/connectivism/?p=53>
- Siemens, G. (2012, August 26). MOOCs learning points. Retrieved August 7, 2012, from <http://www.elearnspace.org/blog/>
- Siemens, G., & Tittenberger, P. (2009). Handbook of emerging technologies for learning. Retrieved September 1, 2012 from <http://techcommittee.wikis.msad52.org/file/view/HETL.pdf>
- Simon, S. (2012, April 18). Top U.S. colleges to offer free classes online. Retrieved September 5, 2012, from <http://uk.reuters.com/article/2012/04/18/usa-college-online-idUKL2E8FH0H820120418>
- Weissmann, J. (2012, July 18). The single most important experiment in higher education. Retrieved September 6, 2012 from <http://www.theatlantic.com/business/archive/2012/07/the-single-most-important-experiment-in-higher-education/259953/>
- The MOOC Guide, Retrieved September 5, 2012, from <https://sites.google.com/site/themoocguide/home>
- Udacity. Retrieved September 14, 2012, from <http://www.udacity.com/#>
- U.S. Department of Education. Evaluation of evidence-based practices in online learning: A meta-analysis and review of online learning studies. Retrieved March 21, 2012, from <http://www2.ed.gov/rschstat/eval/tech/evidence-based-practices/finalreport.pdf>

# **The Use of Social Networking Sites by Small Business Employers**

Siobhan Mettey, Metropolitan State University  
Forrest Carpenter, Metropolitan State University  
Aaron Jackson, Metropolitan State University

## **Abstract**

The use of social networking sites has dramatically increased since their introduction in 2006. Many individuals are using these sites to communicate and stay connected to friends, family and coworkers. Employers have also embraced social media by using the information for recruitment, selection, and termination of employees, which results in better employees and lower costs. With such a new trend this paper examine whether the use of social media is necessary, legal, and ethical.

## **Introduction**

In the past few years the world has seen an unprecedented growth in the use of social media. Whether it is Facebook, Twitter, LinkedIn or any other social media platform, many types of personal and professional information are being uploaded to the Internet for anyone to access. Employers are becoming one of the parties accessing social media information typically for recruitment and selection (Miller, 2012). In between the submission of the resume and speaking with a recruiter companies are now using the Internet and social networking sites to pre-screen applicants (Smith & Deborah, 2010) or applicants are coming into interviews and being asked for their username and passwords to social networking sites by the interviewer. This paper will explore the effects of using social networking sites to make employment decisions specifically in the hiring process. This raises many questions, is this employer use, legal, moral, or ethical?

According to Wasserman (2012) Facebook currently has 901 million users, of those users 526-million use Facebook daily. Twitter has 500 million users and 140 million active users (Wasserman, 2012). Linked in states "As of August 2, 2012, LinkedIn operates the world's largest professional network on the Internet with more than 175 million members in over 200 countries and territories." ("LinkedIn", 2012). Given that Facebook is only six years old and there are 314,374,036 people in the United States and 7,039,320,156 in the world, the number of future potential users is large (U.S. census bureau, 2012).

## **What Are Social Media Sites, How Do They Work, Why?**

Social media sites are web pages in a specific format designed to display the most amount of information with the least amount of effort. All of them change in appearance based on the social media site that an individual uses. They are designed to be very user friendly, and allow an individual to customize their webpage by adding data, such as pictures, videos, and preferences (Smith & Deborah, 2010). All have a section titled 'about me'; this is the section where the individual can describe himself or herself. The end result is a personalized webpage managed by a third party such as Facebook that portrays what an individual wishes to share with the world about who they are through pictures, videos, and written information.

Why do millions of people use social networking sites daily? Individuals use social networking sites to maintain existing friendship networks (Subrahmanym, 2008). According to Subrahmanym (2008) college students use it to stay connected to their friends from high school and as a way to form new friendships with people they just met on campus, or met online. It is a way to stay connected. Facebook has a goal of allowing the user to extend their community, and the younger generation is using Facebook to help shape personal identity (Smith & Deborah, 2010). Facebook is used to stay connected with friends even as you grow apart, such as going to different colleges. It can also be used to reconnect with individuals who one has lost contact with (Smith & Deborah, 2010).

There are many different types of social media websites, all are new. Facebook, one of the main social networking sites did not become available to the public until 2006 ("Facebook blog", 2006). With less than 6 years in use this is new and uncharted territory. The importance of knowing what potential employees should and should not do and what employers can do is essential to continuing success of both individuals and companies. Therefore the paper's focus will primarily be on the use of Facebook.

### **History**

Facebook is the most prominent of social networking sites for personal use (Sorav, 2012) and LinkedIn for professional ("The ebusiness knowledgebase," 2012). LinkedIn is intended to be used by employers in the hiring process.

In order to create a profile to any social networking website, such as Facebook an individual must register, by choosing a username and password, if they wish to become a member. Once they are a member they login to the website, and create their profile. Profiles are how individuals communicate. On these websites individuals interact through profiles. Profiles on all three sites contain pictures of the individual and general information such as sex, age or birthday, marital status, religion, and summary describing them.

Individuals can choose to have their profiles public, or private. When a profile is private, it can only be viewed by a person's group of friends. The terminology of friend differs for each social networking site (Facebook is friends, LinkedIn is network, and Twitter is followers). Friends are added through requests that can be approved or denied by the individual who manages the profile (Smith & Deborah, 2010). When individuals become friends with other social networking users then they are able to post messages onto each other's profiles in the news feed/ wall section, or send messages privately. An individual does not have to be a person's friend, or need approval to post pictures, videos, or comments about anybody. This means an individual who does not use a social networking site may have pictures posted by others who do use social networking sites.

### **Use by Small Business Employers**

Social recruiting has also become a major factor in finding and hiring employees. Current Statistics of Social Recruiting BBC show: 66% of recruiters use Facebook, 54% use twitter, 93% use LinkedIn, and 71% of HR and recruiting professionals consider themselves moderate to exceptional social recruiters (Millar, 2012).

Major incentives for business use of social media are to reduce the huge costs of recruitment and selection (Heikkonen, 2012). By adding a social media filter to the screening process it is an extremely cost effective way to narrow down the applicants who need to be interviewed. Social media also allows employers to avoid mistakes when it comes to hiring. For example: In one case, a 22 year old master's student who had just been offered a job with Cisco posted on her Twitter feed, "Cisco just offered me a job! Now I have to weigh the utility of a fatty paycheck against the daily commute to San Jose and hating the work" (Mangla, 2009). After another employee took notice of the post and asked who her hiring manager was, the post drew more attention. Eventually, the young woman turned down the job offer thinking it would likely be retracted anyway. Using social media is a very effective way to control cost, and monitor how employees represent both themselves and the company.

In the 2009 career builder survey 35% of employers did not hire an applicant because of negative information found on Facebook (Brown 2011). Social media in the recruitment and selection process also offers the opportunity to analyze a person's linguistic skills and abilities. Information posted is more accurate than many other types of well screeed data an applicant provides, such as a resume or cover letter (Davidson, 2011, Brown 2011). Although they may have carefully edited their application, most potential employees do

not carefully edit their posts or tweets. It only takes a potential employer a matter of minutes to see just how professional a person is outside of work, and to look into their skills and abilities as a writer, which are both very helpful when deciding who to hire.

Many individuals feel that employers who use social media are violating an individual's right to privacy (Brown, 2011). Some think that adjusting the privacy settings on their profile protects them (User: loresjoberg, 2011). However, it is extremely easy for an employer to work around the privacy settings. All they have to do is look at an applicant's Facebook friends if the employer knows any of their friends, they can look on their walls for posts or messages sent between the two of them or groups of friends, and gain access to information (Smith & Deborah, 2010). It is surprising how easy it is to find information this way, especially if a viewer knows a few of their friends. There are often pictures on their pages with the potential employee in them, and links to other friends that have more pictures and stories. No matter how much of an effort an individual puts forth to keep their information private, if they put it on the web, there are ways to access it.

Many individuals also feel extreme pressure due to the difficult economic climate to comply with any potential employer request (Swarts, 2012). This includes handing over usernames and passwords before or during an interview (Swarts, 2012). In these situations it can be viewed as a lose-lose for the applicant. If they refuse to allow an employer access to their social networking site, they may not get the job. However, if the employer looks at their social networking site they still may not get the job.

### **Why This Is an Issue**

According to Miller (2012) 66% of employers use Facebook for HR purposes. Currently a large number of employers are accessing social media (Smith & Deborah, 2010). Facebook contains information that is disallowed by the Civil Rights Act. If employers continue to use social media there is a potential they are violating the civil rights act, this is an issue that needs to be further examined. Overall, gray areas in the digital world pertaining to online privacy are constantly expanding and raise even more questions than the insufficient answers they provide. There is uncertainty about what information is being used, who has access, and whether they avoid illegal information such as age, sex, religion, etc. Other than these guidelines from the Civil Rights Act there are no other guidelines addressing employer use of social media information.

Currently, technology advances faster than legislation. Consequently, it is going to be a while before legislation catches up to technology, which means employers are going to have to self-regulate, and make decisions on what is and what is not appropriate to use based on personal judgment.

Employers seeking applicants have found themselves in one of those gray areas, which for the time being is working to their advantage by allowing them to be more selective. Publicly accessible information is available online at any given time, thus making potential applicants vulnerable to pre-screening processes. Access to information from sites such as Facebook warrants gathering specific information pertaining to applicant character, tendencies, skills, likes and dislikes. Therefore, recruiters gain valuable insight when it comes to selecting applicants. With all of this information comes responsibility, are the methods and tactics being used by the recruiters to gain and interpret data legal, ethical moral?

### **Legal Issues**

Currently, there are no laws in place that regulate the use of social media when hiring. There have only been a few cases that reference Facebook such as the City of Bozeman but no clear legal precedent has been established. There have been a few instances where Facebook information has been used to fire individuals for content they posted. For example, in Virginia, *Ainsworth v. Louden County School Board*(2012) a teacher's Facebook status updates were used as proof of her unauthorized absences. This information was then used as grounds for her dismissal.

One legal recourse for employees may be tort cases against employers for damages from invasion of privacy. A tort is defined by Black's Law Dictionary as "A civil wrong, other than breach of contract, for which a remedy may be obtained, usu. in the form of damages; a breach of a duty that the law imposes on persons who stand in a particular relation to one another" (2009). A personal tort is defined as "A tort involving or consisting in an injury to one's person, reputation, or feelings, as distinguished from an injury or damage to real or personal property" (Black's Law Dictionary 2009). In these tort cases employees will carry the costs of litigation and the burden of proof including how the company's use damaged them.

Another legal recourse for employees is the Civil Rights Act. The use of social media platforms allows visual access to illegal information such as age, race, gender, religion, and marital status (Smith & Deborah, 2010). The EEOC has not allowed the use of applicants' photographs but social media sites often contain pictures, which would divulge this information. These pictures can be made private, but again are likely accessible through friends' pages. If a potential employee who was denied a job wanted to they could possibly bring forth a class action lawsuit. For example, if Jane Doe was rejected for employment and knew that the company had accessed her social media site containing her picture she could claim sex discrimination. She could also initiate a class action lawsuit by obtaining the names of all females who also rejected. Class action suits can cost the company millions of dollars in damages. Such a case could ignite public indignation leading to further legislation.

### **Ethical Issues**

It is important to examine whether it is ethical to base employment decisions on social media information. According to Brown (2011) there is a high likelihood that use of this information is unethical because of the potential for misuse. Brown (2011) examines four potential issues. First, sometimes the collected data is not relevant to the employers' jobs. Some information is highly distorted from self-monitoring (making yourself look different, better, or appealing) (Brown, 2011). Next, there is no means to standardize the information (Brown, 2011). However, it is public opinion that use of public information, although legal, violates an individual's privacy. For example, the city of Bozeman initially required state workers to provide usernames and passwords to social networking sites; they defended this practice by stating that using usernames and passwords to access a candidates profile is equivalent to other methods of gathering background information, such as running a background check. The case was dropped by the city because of public pressure (Brown, 2011).

Another factor Brown addresses (2011) is misusing information by taking it out of the intended context. As with all electronic communication meaning and intent can often be skewed and misinterpreted by the receiving party. In addition, the possibility of something being taken out of context is increased when it is viewed by a third party. Brown (2011) illustrates this concept by using an example that a picture of a woman was taken and posted on Facebook. The picture showed the woman passed out on a bathroom floor, and it was inferred that she was a heavy drinker and not someone the company wanted to hire. This inference was incorrect. Although the woman was intoxicated at the time the picture was taken, it was an example of her life before she joined Alcoholics Anonymous and began recovery. It was also before she applied for the position. The woman is now covered by the ADA (Brown, 2011) and has the potential to sue the employer because alcoholism is a protected ADA disability. This example shows how easily information can be misused by taking it out of context.

### **Is Use by Small Businesses Necessary?**

Preliminary research also shows that the use of social networking sites can be predictive of future performance (Kluemper, 2009). Kluemper (2009) explores whether trained judges can accurately assess characteristics that indicate job performance based only on an individual's social networking site. In regular

interviews they concluded that the average job interview which is 40 minutes in length can accurately determine three of the big five personality traits.

*“In addition, the trained raters were able to accurately distinguish between individuals who scored high and individuals who scored low on four of the big-five personality traits, intelligence, and performance, providing initial evidence that raters can accurately determine these organizationally relevant traits by viewing SNW information.”*

This preliminary trial shows that the use of social networking sites in the hiring process can accurately determine whether an individual will be successful on the job. This makes the use of social networking sites necessary, and a valid predictor of future job performance if results of future studies remain constant with their findings (Kluemper, 2009).

### **Recommendations for Employers and Employees**

#### *Implications and Advice for Small Business Employers*

Social media can be a valuable tool in the hiring process; however it is in the best interest of the company to adhere to some basic guidelines. In regards to legality the authors would recommend that the rules, regulations, and procedures in a corporations handbook be updated to ensure that any individual involved in hiring decisions knows what information can be used, who can access that information, and how any data gathered online should be handled. To further reduce liability the authors suggest that an employer use a third party to screen social media sites and then have the third party issue a simple statement stating yes I would hire this person, or no I would not hire this person based on the information gathered from a social networking site. Since the hiring manager has never seen any individuals' social networking profiles use of a third party eliminates any chance of potential bias, intentional or not, while still using the information to benefit the company.

It is critical that employers use not just social media information but continue to also use traditional recruitment and selection techniques. Because employer use is new, some caution is needed to avoid potential lawsuits. Employers should avoid examining illegal information such as race, age, etc. Company employees making hiring decisions should never have access to such information. Therefore, business owners need to implement rules on who has access to gathered data and use of a third party. No matter how beneficial, the evaluation of online presence cannot replace the practicality of equally valuable tools currently in place, such as the formal interview. Finally employers need to recognize that this is a controversial issue and treat it with the sensitivity it deserves.

#### *Implications and Practical Advice to Employees and Potential Employees*

Because many employers continue to use social media both employees and potential employees must use good judgment on how they are represented online. There are many ways around security controls. First assume everything placed online may become public information regardless of privacy settings. Also, potential employees must assume that all information posted online is stored somewhere and may be exposed, positively or negatively in the future.

Common sense is needed because many individuals fail to see what they post online today will affect future opportunities and major life decisions. Some examples include: Facebook being used regularly used in custody decisions, hiring decisions, promotion decisions, and as a deciding factor as to whether criminal charges should be filed. As Newton said “For every action there is always an equal and opposite reaction.” Sadly a well qualified applicant with good job skills and a stellar academic record will not get jobs with a Facebook page that is filled with risqué photos, pictures of them heavily intoxicated, and posts using horrible grammar (Brown 2011). Many individuals already have information online they wish they could erase. Lastly, clean up what exists, and starting today do not post anything else that one may regret.

## Implications for Small Businesses

Small business may desire to use social media for employment decisions because of the cost savings, the lack of human resource professionals, and recruiting benefits it offers. While it may have these benefits, it is important to use caution from potential lawsuits that could bankrupt the company. Legislation will one day be passed and it is essential business protect them so they do not find themselves in a case that sets precedence in a negative way.

## Further Research

There are still many aspects of social media that still need to be explored. For example, the use of social media in retention and termination decisions would be the next logical choice. It is also important to note that more research needs to be done to determine the validity of whether an individual's Facebook page can predict success of an employee. Abuses by employees and employers may provoke new legislation or EEOC guidelines. It is possible that future legislation could limit employer liability for using social media.

## Conclusion

Social media is a new tool that employers are using to help aid decisions in the hiring process. Although relatively new, social media is here to stay. However, employer use of social media has created some controversy over employer and employee rights. Both parties need to be aware of the lack of legislation on using this information in the selection process. The use of social media is a valuable tool that should be used by small business. Both employers and employees should use caution until further legislation is passed.

## References

- Ainsworth v. Louden, 851 F.Supp.2d 963, 283 Ed. Law Rep. 114, 18 Wage & Hour Cas.2d (BNA) 1583, 26 A.D. Cases 189, E.D.Va., March 16, 2012 (NO. 1:11CV1228 JCC/JFA) Black's Law Dictionary 9th Ed., 2009
- Brown, V. (2011). The Writing on the (Facebook) Wall: The Use of Social Networking Sites in Hiring Decisions. *Journal of Business and Psychology*, 26(2), 219-225. Retrieved from [http://tb4cz3en3e.scholar.serialssolutions.com/?sid=google&auinit=VR&aulast=Brown&atitle=The writing on the \(Facebook\) wall: The use of social networking sites in hiring decisions&id=doi:10.1007/s10869-011-9221-x](http://tb4cz3en3e.scholar.serialssolutions.com/?sid=google&auinit=VR&aulast=Brown&atitle=The%20writing%20on%20the%20(Facebook)%20wall%3A%20The%20use%20of%20social%20networking%20sites%20in%20hiring%20decisions&id=doi:10.1007/s10869-011-9221-x)
- Carolyn, A. (2006, September 26). Welcome to Facebook Everyone. Retrieved from <http://blog.facebook.com/blog.php?post=2210227130>
- Davison, K. (2011, May 04). *Friend or foe? the promise and pitfalls of using social networking sites for hr decisions*. Retrieved from DOI 10.1007/s10869-011-9215-8
- Davis, D. C. (2007). Myspace Isn't Your Space: Expanding the fair credit reporting act to ensure accountability and fairness in employer searches of online social networking services. *Social Science Research Network*, Retrieved from <http://ssrn.com/abstract=1601471> or <http://dx.doi.org/10.2139/ssrn.1601471>
- Dembosky, A. (2012, September 04). Hit and Miss on the Internet Hiring Line. *Financial Times*, Retrieved from

- Heikkonen, M. (2012, April 27). *The rationale and effectiveness of recruitment outsourcing*. Retrieved from <https://aaltodoc.aalto.fi/handle/123456789/4421>
- Kluemper, D. H., & Rosen, P. A. (2009). Future Employment Selection Methods: Evaluating Social Networking Web Sites. *Journal of Managerial Psychology*, 24(6), 567-580.
- LinkedIn press center. (2012, January 13). Retrieved from <http://press.linkedin.com/about> ("LinkedIn Press Center," 2012)
- Millar, M. (2012, September 03). Need A Job? Learn to Impress the Robots. Retrieved from <http://www.bbc.co.uk/news/business-19440255>
- Preston, J. (2012, July 20). Social Media History Becomes a New Job Hurdle. Retrieved from [http://www.nytimes.com/2011/07/21/technology/social-media-history-becomes-a-new-job-hurdle.html?\\_r=0](http://www.nytimes.com/2011/07/21/technology/social-media-history-becomes-a-new-job-hurdle.html?_r=0)
- Smith, W. P., & Deborah, K. L. (2010). You've been tagged! (then again, maybe not): Employers and facebook. *Kelley School of Business Indiana University*, 53(1), 491-499. doi: 10.1016/j.bushor.2010.04.004
- Sorav, J. (2012). Social Media Today. Retrieved from <http://socialmediatoday.com/node/195917>
- Subrahmanyam, K. (2008). *Online and offline social networks: Use of social networking sites by emerging adults*. (Vol. 29, pp. 420-433). *Journal of Applied Developmental Psychology*. DOI 10.1016/j.appdev.2008.07.003
- The ebusiness knowledgebase* . (2012, January 15). Retrieved from <http://www.ebizmba.com/articles/social-networking-websites>
- U.S. Census Bureau. (2012, May 31). Retrieved from <http://www.census.gov/main/www/popclock.html>
- User: loresjoberg. (2011, March 30). *Make your facebook account private*. Retrieved from [http://howto.wired.com/wiki/Make\\_Your\\_Facebook\\_Account\\_Private](http://howto.wired.com/wiki/Make_Your_Facebook_Account_Private)
- Wasserman, T. (2012, April 23). Facebook now has 901 Million Users. Retrieved from <http://mashable.com/2012/04/23/facebook-now-has-901-million-users/>
- Wiley Company. (2009). *Use of facebook for marketing, fundraising on the rise*. (Issue 6 ed., Vol. 12, p. 2). Wiley Periodicals, Inc. <http://0-onlinelibrary.wiley.com/skyline.ucdenver.edu/doi/10.1002/darr.20022/abstract> DOI: 10.1002/darr.20022

# **Workplace Learning in Small Business: Developing a Role and Research Agenda for Personal Development Plans**

Jeffrey Young, Mount Saint Vincent University  
Wendy Doyle, Mount Saint Vincent University  
Peter Mombourquette, Mount Saint Vincent University  
Ned Kelleher, Mount Saint Vincent University

## **Abstract**

This paper examines personal development plans as a highly relevant form of workplace learning for the development of owners/managers and employees of small businesses. More specifically this paper discusses the implications of the use of personal development plans in small business based on several, related factors – individuality in learning, firm context, firm strategy, a focus on development versus evaluation, going beyond learning at work for work, and managers as enablers. The paper then concludes with some future research directions for personal development plans and small business.

## **Introduction**

Personal development plans (PDPs) come in a broad variety of forms (Richtermeyer, 2010), but generally are written, self-reflective documents that typically encompass learning outcomes that individuals try to obtain (Young, 2005). PDPs provide an educational framework (Hurrell, 2004), indicate a timetable for completion (Hurrell, 2004), and provide evidence of learning and possible evaluation (Cross & White, 2004). PDPs are an integral part of learning and development for people in many fields including physicians (Hurrell, 2004; Keller, 2004; Scheele, 2008), hotel staff (Pollitt, 2011), teachers (Thompson, Hallwood, Clements, & Rivron, 2009), and pharmacists (James, et al., 2002). PDPs have been used by insurance companies (Smith & Davies, 2009), delivery firms (Pollitt, 2007a), and manufacturing firms (Pollitt, 2005; Pollitt, 2007b). PDPs have also been used with customer-service training programs (Pollitt, 2011) and succession-planning programs (Smith & Davies, 2009). Further, PDPs have been recommended for use by many groups such as those in the building industry (Sedam, 1999), human resource professionals (Jones & Fear, 1994), new hires (Froschheiser, 2007), and business developers (Allred, 2010).

However, there is very little research that considers the use of PDPs by small business. Thus, the purpose of this paper is to consider a role for personal development plans in small business. However, this paper does not view PDPs in the narrow light of training, but, as detailed below, does so within the broader perspective of workplace learning. The following sections outline the importance of the small-business sector in Canada, the need for development of people in small business, the role of workplace learning in small business, a brief review of PDPs, and the implications for the use of PDPs in small business. This paper concludes with a series of questions that serves as a research agenda for PDPs in small business.

## **The Small Business Context**

The small-business sector contributed 27% of Canada's total gross domestic product in 2010 (Government of Canada, 2012a) and is clearly very important economically. Further, it is a large sector and as of December 2011 98% of Canadian businesses were considered to be small, that is having fewer than 100 employees), however, 75% of Canadian business have fewer than 10 employees, and 55% have only one to four employees (Government of Canada, 2012b). Historically, one of the main concerns of researchers, business owners, and governments, among others, has been the small-business survival rate. In Canada, evidence from 2001 to 2006 suggests that about 85% of new firms survive for one year, about 70% survived for two years, and about 50% survived for five years (Government of Canada, 2012c).

The survival rates over the years in many jurisdictions, including Canada, have generated much research devoted to examining factors of success and failure in small business. Some authors have focused on specific business or industry types others have considered in more broad-brush approaches. For example, DeLong, Kozak, and Cohen (2007) identified having strategies to manage cost effectiveness were key factors for firms in the Canadian value-added wood products sector, in which most firms were small. Further, industry associations can be used, among other things to, “facilitate and partner on training and education efforts,” (p. 2225). Lussier and Halabi (2010) identified 15 variables that can predict small business success in the USA, Chile, and Croatia. These factors included capital, financial control, industry experience, management experience, planning, use of professional advisors, education level, quality staff, product/service timing, age, partners, parents, minority status, and owners’ possession of marketing skills. Avcikurt, Altay, and Ilban (2011) in their study of small-sized and medium-sized hotel owners in Turkey indicated that both technical and human critical success factors must be considered and concluded that “High priority should be given to human resource issues including education and training of managers as well as staff (p. 161). Recently Lundberg and Fredman (2012) identified various factors associated with success for nature-based entrepreneurs including management commitment and competence, access to natural resources, and life style.

A common thread through the above studies tends to be that of development of owners/managers and of staff members, in essence human capital development. Indeed, Rauch, Frese, and Utsch (2005) reported that the human capital of business owners and human resource development and utilization both positively affected employment growth, and human resource development and utilization are more effective when there is a high level of human capital of employees. In terms of small business and human capital, human resource development (HRD) has been a focal point of academic research, although much of the research has tended to examine training as opposed to broader workplace-learning issues (Kitching, 2007). For example, possession of excellent product knowledge and customer-service skills by employees, developed through HRD activities, can be important factors that assist small businesses to compete with discount chains in the retail sector (Billesbach, & Walker, 2003). Further, firms that are increasing their productivity and/or engaging in export activities are more likely to engage in HRD than those firms that are downsizing or not engaged in exporting (Savery & Luks, 2004). Although there have been many who have questioned the value of training, it is clear that HRD and small-business have definitely been positively linked (Fuller-Love, 2006).

It is this broad issue of HRD that is of interest in this paper, however, HRD is to be viewed through the broad lens of workplace learning which goes beyond the mere provision of training, which is only one element among many in workplace learning (Kitching, 2007).

### **Workplace Learning and Small Business**

Workplace learning is, “a process whereby people, as a function of completing organizational tasks and roles acquire knowledge, skills, and attitudes that enhance individual and organizational performance” (Hicks, Bagg, Doyle, & Young, 2007, p. 62) and it continues to be an important issue in organizations both large and small (Doyle & Young, 2007). For example, learning at work has been shown to aid innovation and growth (Kock 2007), to help develop competitive advantage (Döös et al. 2005; Kock 2007), and it has also been positively associated with organizational performance (Eikebrokk & Olsen 2009; Park & Jacobs, 2011). Further, the opportunity to learn is a contributor to employee loyalty, to employee job satisfaction, and is negatively associated with employee-turnover intentions (Ineson & Berechet, 2011).

Recent research on workplace learning has focused on various professional/occupational groups, for example, accountants (Hicks, et al., 2007), emergency responders (Taber, Plumb, & Jolemore, 2008), hotel employees (Doyle, Findlay, & Young, 2012b), human resource managers (Crouse, Doyle, & Young, 2011), and information-technology professionals (Lohman, 2009).

Further, much recent research has focused on strategies for learning, outcomes of learning, and barriers to, and facilitators of learning in the workplace (see Crouse, Doyle, & Young, 2011 for a review of the literature relevant to the foregoing issues). The body of research on workplace learning has been growing steadily, however, research on workplace learning in a Canadian small-business context is not plentiful.

However, as suggested by the work of Coetzer (2007; Kitching, 2007) there has been movement since the 1990s in the direction of considering the broader issue of workplace learning, not just training, in small business. Indeed, workplace learning can occur on the job site or elsewhere and can include more traditional, formal training and development activities as well as informal activities, for example, observing, others, interacting with others, and experimenting (Doyle & Young, 2003). In Canada, for example, the learning of owners/managers of small business was described as interpersonal, informal, and accidental (Murphy & Young, 1995). More recently, owners/managers of and employees in Canadian small business have been shown to develop new knowledge and skills through formal (e.g., courses) and informal means (e.g., on the job experience) and the informal processes tend to be more favored than are the formal ones (Doyle & Young, 2007). Other researchers reported that in small business in other contexts such as Korea (Moon & Na, 2009), the USA (Rowden, 2002), and Taiwan (Wang Tolson, Chiang, & Huang, 2010) incidental (i.e., learning that is an unintended consequence of another activity – Marsick & Watkins, 2001) and informal means tend to be preferred over the formal means.

A number of researchers have argued that a combination of formal and informal learning strategies is best and no one approach ought to be exclusively relied upon (Dawe and Nguyen, 2007; Doyle & Young, 2007; Van der Heijden, Boon, van der Klink, & Meijs, 2009). Further, Dawe and Nguyen (2007) have suggested that learning strategies that “fit” with the way that small businesses learn are more effective than those that are more direct and formal in orientation. For example, small business owners and employees learn through doing, that is dealing with real business problems and use of social networks. Effective learning strategies include mentoring, networking, action learning, training needs analysis, and benchmarking. However, regardless of strategy employed, three essential elements of small business learning include focus on business-specific needs, reliance on a personal approach to learning through use of credible facilitators, and content and delivery of material that can be delivered in a flexible fashion but address the needs of individual businesses (Dawe and Nguyen, 2007).

Despite the broad array of learning strategies identified and discussed under the umbrella of workplace learning there is very little discussion of PDPs in a small-business, workplace-learning context. However, PDPs are learning strategies that appear to be highly appropriate for development of owners/managers and employees of small businesses. Thus, the next section of this paper examines issues relevant to PDPs and the section that follows it more fully examines the implications of PDPs for small business workplace learning.

### **PDPs: An Overview**

PDPs are discussed in the literature under many different names including personal and practice development plans (Carlisle, Elwyn, & Smail, 2000), individual learning plans (Findlay, Doyle & Young, 2012b), personal training plans (Redkey, 1990), professional growth plans (Fenwick, 2003), and individual development plans (Pollitt, 2010). The use of the term “personal development plan” or “PDP” in this paper is intended to capture all of the above named strategies for individual development.

PDPs may result from various sources and processes including demands for certification (Cross & White, 2004; Hurrell, 2004; Ramsay et al., 2003), skills assessments (James, Beaumont, Carter, & Davies, 2002), feedback (Beusaert, Segers & Gijsselaers, 2011a; Scheele, et al., 2008), and self-reflection (Beusaert, Segers & Gijsselaers, 2011a; Fenwick, 2003; Hurrell, 2004; Richtermeyer, 2010). PDPs are very useful for continuing professional development needs (Jones & Fear, 1994; Sedam, 1999), for having properly trained employees (Sedam, 1999), and for self-assessment (Hurrell, 2004; Scheele et al., 2008). PDPs can be used to create a focus on future development and new goals (Fenwick, 2003; Hurrell, 2004; Scheele et al., 2008), a commitment to lifelong learning (Fenwick, 2003; Hurrell, 2004), and to motivate learning (Fenwick, 2003). They encourage accountability for development, increase collegiality, increase self-affirmation, create ownership of learning, and foster greater collaboration among organizational members (Fenwick, 2003). A reasonable question is are PDPs effective?

### **Evidence of PDPs Effectiveness**

The literature provides some evidence of the effectiveness of PDPs, but this evidence is thin and mixed, but growing in the right direction. In an educational context Bullock and Jamieson (1998) indicated that both students and tutors had learned curriculum and about themselves as a consequence of participating in the development of PDPs. However, one can still ask if the learning has contributed to more effective performance. PDPs have been found to be effective in helping professionals identify learning needs, for example, pharmacists (James, et al., 2002) and physicians Denney (2005). However, again it is not clear if the PDPS have helped improve individual performance, particularly for physicians (Denney, 2005). Beusaert, Segers and Gijsselaers (2011a) have argued that there is little evidence of the effectiveness of PDPs in business organizations because they have not been in use there as long as they have in health and education settings. This lack of evidence lead to the development of the Personal Development Plan Practice Questionnaire, a tool that has been developed and validated to assess an employee's perception of personal development plan practice.

Beusaert, Segers and Gijsselaers (2011b) used the Personal Development Plan Practice Questionnaire in a study of government employees in the Netherlands. The results suggested that perceiving the PDP as a tool for engaging in learning and reflecting, and having a motivating supervisor were associated with employees undertaking learning activities, developing expertise and growth, developing flexibility, and improving performance. Provision of information and feedback were positively associated with employees' expertise and growth, and with performance. Further analysis suggested that undertaking learning activities mediated the relationship of the independent variables (i.e., learning and reflecting activities and having a motivating supervisor) with the dependent variables (i.e., expertise-growth, flexibility, and (performance)).

There are some factors that can limit the use or effectiveness of PDPs. For example, they can be seen as extra work (Thompson et al. 2009), imposed by external agents (Ramsay et al., 2003; Thompson et al. 2009), or serving the agendas of others, not the individual (Thompson et al. 2009). Individuals can experience difficulty assessing their own training needs (James et al., 2002; Ramsay et al., 2003) in what might be seen as a rigid process (Fenwick, 2003) or they might lack clarity between learning goals and professional practice (Fenwick, 2003). Other factors include inhibiting spontaneity of emerging learning opportunities, focusing on survival not learning goals among members new to a profession, fear of revealing a weakness, weakening accountability, and weakening supervisory authority (Fenwick, 2003). Additional limiting factors include having a system that is externally assessed, having insufficient time with too much of a workload, having insufficient money and staff, limiting collaboration with others and various agencies, possessing guidelines that can be interpreted differently resulting in different learning outcomes across groups, and being limited by death or retirement of partner or manager (Ramsay et al., 2003).

There are also factors that can facilitate the effectiveness of PDPs including providing strong organizational support (supervisory training, discussion with colleagues) (Fenwick, 2003), being flexible with employees and supervisors (Fenwick, 2003), having patient administrators (Fenwick, 2003), and importantly, having a program champion/change leader (Fenwick, 2003; Ramsay et al., 2003). Other facilitating factors include creating an intra-organizational collaborative working environment, soliciting input for PDPs from others internal to the organization, aligning PDP implementation with other changes in the organization, fostering inter-organizational collaboration, providing workshops and guidelines on PDPs, and having protected time for development (Ramsay et al., 2003).

The above brief review suggests that the work on evaluating the effectiveness of PDPs is growing in quantity and quality, however slowly. It is also clear, given the broad-brush implementation of PDPs across a variety of organizational and professional contexts, that PDPs are increasingly seen as being effective. A reasonable question is – what are the implications of PDPs for small business? An answer to this question along with future directions for research on PDPs and small business are addressed in the following sections.

### **Implications Of Personal Development Plans For Small Business**

A very small amount of research focuses on PDPs in a small-business context. A good, but old example, is that of Granite Rock Co. (Kendrick, 1993). However, it is our contention that PDPs, although perhaps not always suitable for all firms, offer an underutilized option for employee and management development within the broader context of workplace learning in small business. Our argument for the use of PDPs in small business is based on several, related factors – individuality in learning, context, firm strategy, focus on development, going beyond learning at work for work, and managers as enablers.

Individuality in learning – historically, the learning needs of owners/managers in small businesses have been seen as highly individual in nature, what one needs to know another does not and so on (Murphy & Young, 1994; Doyle & Young, 1997). However, “One of the problems with the provision of management development programmes for small business is that they may have different needs, and it is difficult to determine what each one requires” (Fuller-Love, 2006, p. 188). Individuality of learning needs is not restricted to owners/managers of small businesses, but is a feature of everyday employees in today’s organizations (Doyle, Findlay, & Young, 2012a). Further, people learn in different ways (Doyle, Findlay, & Young, 2012b; Kitching, 2007; Murphy & Young, 1995) and might also learn in different amounts (Eraut, 2007).

Learning processes such as PDPs have self-development elements, for example, people reflect on their own strengths and weaknesses and develop learning needs. Self-development can have at least two big payoffs – people learn about something (e.g., a new process) and they learn about how they best learn (i.e., learning how to learn) (Murphy & Young, 1995), and the use of PDPs offers these same payoffs.

Some of the strengths that PDPs bring to development of owners/managers of small business and their employees is their focus on individuals and their specific learning needs. Secondly, PDPs facilitate the process of identifying the individuals’ needs and the amounts of their needs. Thirdly, PDPs can help individuals and their supervisors identify various, but appropriate, developmental strategies as well as time frames and resources.

Context – the context is “the surround in which learning takes place” (Doyle, Findlay, & Young, 2012b, p. 265) and it is a key element of workplace learning (Crouse, Doyle, & Young, 2011; Eraut, 2007) because “Learning is a situated and context-dependent activity (Kitching, 2007, p. 44). Examples of context are far too numerous to list, but examples include “education and practice settings” (Eraut, 2007, p. 404) as well as demanding and challenging roles. Further, “.... The precise learning processes and outcomes will vary

within and between organisations with the specific and often changing – job and business context” (Kitching, 2007, p. 49). The broader external environment and the domain in which a firm operates as well as its structure, culture, and stage of life cycle as described by Jones (2010) are also elements of a firm’s context. Thus, as small-business firms’ contexts change PDPs can help firms’ employees identify new knowledge and skill sets as well as ways of helping employees learn them.

Fit with strategy – in recent years much of human resource management (HRM) has taken on a strategic perspective, and the basic notion is that of integrating HRM strategies to support overall firm mission, goals, and strategies (Schwind, Das, Wagar, 2010). This strategic HRM view has also been promulgated by those in specific fields of HRM such as compensation (Milkovich, Newman, & Cole, 2010), recruitment and selection (Das, 2007), and training and development (Saks & Haccoun, 2010). Specifically Weinstein (2010) has suggested that it is important that the organization’s learning strategy fits with the broader firm’s strategic goals and actions. For example, according to Das (2007) a firm that has a strategy of cost leadership will require narrow skill sets of employees, low flexibility, and expect predictable and repetitive employee behaviours. On the other hand a firm that has a differentiation strategy will require broad skill sets of employees, high flexibility, and expect creative and non-repetitive behaviours. Further, firms that employ commitment HRM strategies will require a high level of focus on employee training and development than those with a paternalistic strategy in which development is provided sufficient to meet minimal capabilities required to meet new challenges. Firms with compliance and collaborative HRM strategies will provide lower levels of development than the first two. PDPs are likely to be a good fit in small firms where there is a differentiation strategy adopted because of the demands described above, but they can also be adopted and adapted to other strategies. However, PDPs can be flexible in at least two ways. They easily allow for the inclusion of new skill and knowledge sets as firms’ strategies change and they also allow for the incorporation of a variety of methods of learning (i.e., formal and informal).

A succession planning tool – the importance of succession planning has been highlighted by a number of business writers (Berg, 2010; Robbins, 2008), especially since about 60% of owners of Canadian small-sized and medium-sized businesses (SMBs) plan to exit or transfer control of their businesses in the next 10 years (Berg, 2010). However, some studies suggest that only about 35% of SMBs in the USA and about 10% of SMBs in Canada have a formal succession plan in place. Obviously there are many legal, tax, financial and other considerations in succession planning. However, the use of PDPs can play a large role in succession planning, for example, PDPs provide decision makers “an opportunity to gain more information on people and provide the business with options for succession decisions in the future” and further allow decision makers “to consider the risks associated with each key position and current incumbent along with development planning for identified successors” (Smith & Davies, 2009, p. 15).

In summary, PDPs provide focus and flexibility in terms of individual learning needs and preferred styles and also provide flexibility and focus that can adjust to shifts in context and/or firm strategies as well as facilitating succession planning. Small business owners must consider various factors that facilitate or hinder the use of PDPs as described above. However, the authors believe that several factors could be key issues for implementing PDPs in small business.

Focus on development not evaluation – the development of employees and owners/managers is important for success in the small business sector (Dawe and Nguyen, 2007) and there are many factors that discourage the use of PDPs as described above. However, one important factor to consider is the use of PDPs for development purposes as opposed to evaluation purposes. PDPs can be problematic in contexts where they have been used in ways that emphasize “performativity and bureaucratic control” (Thompson et al., 2009, p. 282) and “Managers who may be concerned about accountability or confusing growth plans with

performance appraisals need clarification about the purposes of PGP and their necessary separation from evaluative processes” (Fenwick, 2003 p.75). PDPs will be much more readily received if they are perceived as and used as developmental tools, helping individuals to learn, rather than as evaluative tools that could result in negative consequences.

Going beyond learning just for work – should owners/managers of small business provide their employees with the opportunity to develop their “non-work selves”? It is likely that owners/managers of small business will provide learning opportunities if outcomes such as increased performance and employee retention occur, but are less likely to provide these opportunities if work time is reduced or employees are lost to other firms (Kitching, 2007). On the other hand, take Granite Rock Co., which uses individual professional development plans as a means of training employees. Some of the courses used in the training to help individuals achieve their goals focus on technical issues (e.g., maintenance skills), some focus on business issues (e.g., business law), and others focus on personal issues (e.g., health and wellness, personal growth) (Kendrick, 1993).

Encouraging learning by employees beyond the immediate needs for work makes sense for a variety of reasons. Doing so can help employees develop self-affirmation and create ownership of learning (Fenwick, 2003). Further, such a strategy helps to create a focus on future development and new goals (Fenwick, 2003; Hurrell, 2004; Scheele et al., 2008), motivates learning (Fenwick, 2003), and develops a commitment to lifelong learning (Fenwick, 2003; Hurrell, 2004). PDPs are an excellent means of promoting self-development and continuous learning in the broad sense.

Owner/Manager as enabler – it is important that PDPs have a program champion/change leader if they are to succeed (Fenwick, 2003; Ramsay et al., 2003) so there is an important role for managers and supervisors of small business to play in the successful use of PDPs or other learning initiatives. In fact, “managers in small firms may need practical help in managing the learning of diverse groups of employees, and in understanding the potential differences in employee learning processes” (Coetzer, 2007, p. 431). Further, programs aimed at developing those involved in small business must target those who see little or no value in managerial and/or employee development (Dawe & Nguyen, 2007).

In summary, PDPs provide focus and flexibility in terms of individual learning needs and preferred styles and also provide flexibility and focus that can adjust to shifts in context and/or firm strategies. PDPs can provide small businesses with some foundation for succession planning.

#### Conclusions and proposed areas/questions for future research

In conclusion, the above review and synthesis of the literature has suggested that PDPs are highly appropriate for use in small business for both managers and employees. However, there are certain factors that owners/manager should aware of before establishing PDPs as a part of their personal or employee-development programs. Further, the review has resulted in several areas for possible research within the context of small business and PDPs. The possible research areas/questions have been identified as, but are not limited to, the following:

- 1 – To what extent do small businesses rely on PDPs as a form of employee/management development? How amenable are owners/managers and employees to the use of PDPs?
- 2 – Why do small firms use or not use PDPs?
- 3 – How is the effectiveness of PDPs assessed?
- 4 – Does the use of PDPs correlate with a particular business strategy?
- 5 - Where do PDPs fit in terms of workplace learning in small business?

- 6 – Are PDPs used as part of succession planning?
- 7 – What uses are made of PDPs? Are they developmental? Are they evaluative? Are they used for both? Are they used for other business reasons?
- 8 – Are PDPs used by small business firms to promote personal (i.e., non-business) knowledge and skills?
- 9 – Are PDPs used to help people develop their non-work selves? Would owners/managers and employees be amenable to such a use of PDPs?
- 10 – What roles do owners/managers play in the developmental processes of their employees?

It is expected that an initial program of qualitative research based on in-depth interviews with owners/managers and employees in a wide variety of small businesses would be a reasonable starting point for research. The qualitative research could then be used to develop survey instruments that would result in a quantitative and more broad-brush research approach with large samples.

### References

- Allred, S. M. (2010). Preparing tomorrow's best business developers: A fresh approach. *CPA Practice Management Forum*, 14-15.
- Avcikurt, C., Altay, H., & Ilban, M. O. (2011). Critical success factors for small hotel businesses in Turkey: An exploratory study. *Cornell Hospital Quarterly*, 52(2), 153-164.
- Beusaert, S., Segers, M., & Gijssels, W. (2011a). The personal development plan practice questionnaire: The validation of an instrument to assess the employee's perception of personal development plan practice. *International Journal of Training and Development*, 15(4), 249-270. doi: 10.1111/j.1468-2419.2011.00375.
- Beusaert, S., Segers, M., & Gijssels, W. (2011b). The use of a personal development plan and the undertaking of learning activities, expertise-growth, flexibility and performance: The role of supporting assessment conditions. *Human Resource Development International*, 14(5), 527-543. doi: 10.1080/13678868.2011.620782
- Berg, D. (2010). SMB succession planning: Our economic future depends on it. *Saskbusiness*, 31(8), 43.
- Billesbach, T. J., & Walker, J. (2003). Stalking Goliath: What successful small business are doing against major discount chains. *Journal of Business and Entrepreneurship*, 15(2), 1-17.
- Bullock, K., & Jamieson, I. (1998). The effectiveness of personal development planning. *The Curriculum Journal*, 9(1), 63-77.
- Carlisle, S., Elwyn, G., & Smail, S. (2000). Personal and practice development plans in primary care in Wales. *Journal of Interprofessional Care*, 14(1), 39-48.
- Coetzer, A. (2007). Employee perceptions of their workplaces a learning environments. *Journal of Workplace Learning*, 19(4), 417-434. doi: 10.1108/13665620710819375
- Cross, M., & White, P. (2004). Personal development plans: The Wessex experience. *Education for Primary Care*, 15, 205-212.
- Crouse, P., Doyle, W., & Young, J. D. (2012). Workplace learning strategies, barriers, facilitators and outcomes: A qualitative study. *Human Resource Development International*, 14(1), 39-55. doi: 10.1080/13678868.2011.542897
- Das, H. (2007). *Recruitment, selection, and deployment of human resources: A Canadian perspective*. Toronto: Pearson Prentice Hall.
- Dawe, S., & Nguyen, N. (2007). Education and training that meets the needs of small business: A systematic review of the research. Retrieved from National Centre for Vocational Education Research: <http://www.ncver.edu.au/publications/1737.html>
- DeLong, D. L., Kozak, R. A., & Cohen, D. H. (2007). Overview of the Canadian value-added wood products sector and the competitive factors that contribute to its success. *Canadian Journal for Forest Resources*, 37, 2211-2226.

- Denney, M., L. (2005). Annual appraisal for general practitioners: Where have we got to? *Education for Primary Care*, 16, 697-703.
- Döös, M., L. Wilhelmson, T. Backlund, and N. Dixon. (2005). Functioning at the edge of knowledge: A study of learning processes in new product development. *Journal of Workplace Learning* 17, no. 7/8: 481-492.
- Doyle, W., Findlay, S., & Young, J. D. (2012a). Hotel employees in Halifax, Canada: How important is learning to them and what do they want to learn? *Proceedings of the North American Management Society*, Chicago IL.
- Doyle, W., Findlay, S., & Young, J. D. (2012b). Workplace learning issues of hotel employees: Examining differences across management status and gender. *Journal of Human Resources in Hospitality & Tourism*, 11(4), 259-279. doi: 10.1080/15332845.2012.690679
- Doyle, W., Reid, J. G., & Young, J. D. (2008). Barriers to and facilitators of managers' workplace learning in small and large knowledge-based firms. *Proceedings of the Small Business Institute Conference*, San Diego, CA.
- Doyle, W., & Young, J. D. (1997). Nova Scotia entrepreneurs: Individual development needs, development sources, and shifts in management development delivery. *Proceedings of the 27<sup>th</sup> Annual Atlantic Schools of Business Conference*, Fredericton, NB.
- Doyle, W., & Young, J. (2003). Small business owners: Barriers to and facilitators of their workplace learning. *Proceedings of the Canadian Council on Small Business and Entrepreneurship*, Victoria, BC.
- Doyle, W., & Young, J. D. (2005). Small business owners/managers: Exploring workplace learning and its outcomes. *Proceedings of the North American Management Society Conference*, Chicago.
- Doyle, W., & Young, J. D. (2007). Workplace learning strategies of managers in small and large firms in knowledge-based industries. *Proceedings of the University Forum on Human Resource Development*, Oxford, UK.
- Eikebrokk, T.R., & Olsen, D. H. (2009). Training, competence, and business performance: Evidence from E-business in European small and medium-sized enterprises. *International Journal of E-Business Research*, 5(1), 92-116.
- Eraut, M. (2007). Learning from other people in the workplace. *Oxford Review of Education*, 33(4), 403-422.
- Fenwick, T. J. (2003). Professional growth plans: Possibilities and limitations of an organizationwide employee development strategy. *Human Resource Development Quarterly*, 14(1), 59-77.
- Froschheiser, L. (2007). Recruiting for success. *Supervision*, 68(6), 13-15.
- Fuller-Love, N. (2006). Management development in small firms. *International Journal of Management Reviews*, 8(3), 175-190.
- Hicks, E., Bagg, R., Doyle, W., & Young, J. D. (2007). Canadian accountants: Examining workplace learning. *Journal of Workplace Learning*, 19(2), 61-77.
- Government of Canada, Industry Canada, SME Research and Statistics, Key Small Business Statistics. (2012a). *What is the contribution of small businesses to Canada's gross domestic product?* Retrieved from <http://www.ic.gc.ca/eic/site/061.nsf/eng/02722.html>
- Government of Canada, Industry Canada, SME Research and Statistics, Key Small Business Statistics. (2012b). *How many businesses are there in Canada?* Retrieved from <http://www.ic.gc.ca/eic/site/061.nsf/eng/02715.html>
- Government of Canada, Industry Canada, SME Research and Statistics, Key Small Business Statistics. (2012c). *How many businesses appear and disappear each year?* Retrieved from <http://www.ic.gc.ca/eic/site/061.nsf/eng/02716.html>
- Hurrell, K. (2004). An analysis of the role of personal development plans as formative assessment tools within the KSS Deanery senior general practice registrar scheme. *Education for Primary Care*, 15, 618-625.

- Ineson, E. M., & Berechet, G. (2011). Employee loyalty in hotels: Romanian experiences. *Journal of Human Resources in Hospitality & Tourism*, 10, 129-149. doi: 10.1080/15222845.2011.536694
- James, D., Beaumont, S., Carter, S., & Davies, J. G. (2002). A framework for assessing the continuous professional development needs of community pharmacists. *Pharmacy Education*, 2(2), 63-68.
- Jones, G. R. (2010). *Organizational theory, design, and change* (6<sup>th</sup> ed.). Upper saddle River, NJ: Prentice Hall.
- Jones, N., & Fear, N. (1994). Continuing professional development: Perspectives from human resource professionals. *Personnel Review*, 23(8), 49-60.
- Kendrick, J. J. (1993). Granite Rock Co. *Quality*, 31.
- Kitching, J. (2007). Regulating employment relations through workplace learning: A study of small employers. *Human Resource Management Journal*, 17(1), 42-57.
- Kock, H. 2007. The team as a learning strategy: Three cases of team-based production in the Swedish manufacturing industry. *Journal of Workplace Learning* 19, no. 8: 480-496.
- Lohman, M. C. (2009). A survey of factors influencing the engagement of information technology professionals in informal learning activities. *Information Technology, Learning & Performance Journal*, 25(1), 43-53.
- Lundberg, C., & Fredman, P. (2012). Success factors and constraints among nature-based tourism entrepreneurs. *Current Issues in Tourism*, 15(7), 649-671. doi: <http://dx.doi.org/10.1080/13683500.2011.630458>
- Lussier, R. N., & Halabi, C. E. (2010). A three-country comparison of the business success versus failure prediction model. *Journal of Small Business Management*, 48(3), 360-377.
- Marsick, V. J., & Watkins, K. E. (2001). Informal and incidental learning. *New Directions for Adult and Continuing Education*, 89, 25-34.
- Milkovich, G. T., Newman, J., & Cole, N. (2010). *Compensation* (3<sup>rd</sup> Canadian ed.). Toronto: McGraw-Hill Ryerson.
- Moon, S. Y., & Na, S. I. (2009). Psychological and organizational variables associated with workplace learning in small and medium manufacturing business in Korea. *Asia Pacific Education Review* (10), 327-336. doi: 10.1007/s12564-009-9040-1
- Murphy, H. J., & Young, J. D. (1994). Small business owners/managers and management self development: Considering issues of individuality. *Proceedings of the Atlantic Schools of Business Conference*, Halifax, NS.
- Murphy, H. J., & Young, J. D. (1995). Management self-development and small business: Exploring emergent issues. *Management Learning*, 26(3), 319-330.
- Park, Y., & Jacobs, R. L. (2011). The influence of investment in workplace learning on learning outcomes and organizational performance. *Human Resource Development Quarterly*, 22(40), 437-458. doi: 10.1002/hrdq.20085
- Pollitt, D. (2005). Training at the heart of Zodiac's turn-around. *Training & Management Development Methods*, 19, 3.49-3.52.
- Pollitt, D. (2007a). Academy helps Target to deliver top talent of tomorrow. *Human Resource Management International Digest*, 15(2), 33-35. doi: 10.1108/0967073710735753
- Pollitt, D. (2007b). Training helps to mop up inefficiencies at SCA Hygiene Products. *Human Resource Management International Digest*, 15(4), 21-23. doi: 10.1108/0967073710753933
- Pollitt, D. (2010). Moorhouse Group targets training for growth. *Human Resource Management International Digest*, 18(1), 25-26.
- Pollitt, D. (2011). Training programs engage employees at Hand Picked Hotels. *Human Resource Management International Digest*, 19(6), 7-10. doi: 10.1108/09670731111163437
- Quinton, S., & Smallbone, T. (2008). PDP implementation at English universities: What are the issues? *Journal of Further and Higher Education*, 32(2), 99-109. doi: 10.1080/0309877071851839

- Ramsay, R., Pitts, J., While, R., Attwood, M., Wood, V., & Curtis, A. (2003). Factors that helped and hindered undertaking practice professional development plans and personal development plans. *Education for Primary Care, 14*, 166-177.
- Rauch, A., Frese, M., & Utsch, A. (2005). Effects of human capital and long-term human resources development and utilization on employment growth of small-scale businesses: A causal analysis. *Entrepreneurship Theory and Practice, 29*(6), 681-698.
- Redkey, S. (1990). It's a personal training plan. *Computerworld, 90*.
- Richtermeyer, S. (2010). Creating a professional development plan. *Strategic Finance, 92*(1), 5, 61.
- Robbins, M. (2008). Small companies have big shoes to fill. *Benefitnews.com, 15-16*.
- Rowden, R. W. (2002). The relationship between workplace learning and job satisfaction in U. S. small to midsize businesses. *Human Resource Development Quarterly, 13*(4), 407-425.
- Saks, A. M., & Haccoun, R. R. (2010). *Managing performance through training and development*. Toronto: Nelson.
- Savery, L. K., & Luks, J. A. (2004). Does training influence outcomes of organizations? *Journal of Management Development, 23*(2), 119-123. doi: 10.1108/02621710410517210
- Scheele, F., Teunissen, P., Van Luijk, S., Heineman, E., Fluit, L., Mulder, H., Meininger, A., Wijnen-Meijer, M., Glas, G., Sluiter, H., & Hummel, T. (2008). Introducing competency-based postgraduate medical education in the Netherlands. *Medical Teacher, 30*, 248-253. doi: 10.1080/01421590801993022
- Schwind, H., Das, H., & Wagar, T. (2010). *Canadian human resource management: A strategic approach (9<sup>th</sup> ed.)*. Toronto: McGraw-Hill Ryerson.
- Sedam, S. (1999, January). Resolutions for a new age. *Builder, 332*.
- Sharkey, L. D. (1999). Changing organizational culture through leadership development: A case in leadership transformation. *Organization Development Journal, 17*(3), 2937.
- Smith, J. & Davies, D. (2009). Transforming HR in partnership with the business at QBE Insurance. *Strategic HR Review, 8*(5), 11-17. doi: 10.1108/14754390910976780
- Taber, N., Plumb, D., & Jolemore, S. (2008). "grey" areas and "organized chaos" in emergency response. *Journal of Workplace Learning, 20*(4), 272-285.
- Thompson, R., Hallwood, L., Clements, C., & Rivron, H. (2009). Personal development planning in initial teacher training: A case study from post-compulsory education. *Research in Post-Compulsory Education, 14*(3), 269-285. doi: 10.1080/13596740903139339
- Van der Heijden, B., Boon, J., van der Klink, M., & Meijs, E. (2009). Employability enhancement through formal and informal learning: An empirical study among Dutch non-academic university staff members. *International Journal of Training and Development, 13*(1), 19-37.
- Wang, J., Tolson, H., Chiang, T. L., & Huang, T. Y. (2010). An exploratory analysis of workplace learning, job satisfaction, and organizational commitment in small to mid-size enterprises in Taiwan. *Human Resource Development International, 13*(2), 147-163. doi: 10.1080/13678861003703682
- Weinstein, M. (November/December, 2010). Look ahead: Long-range learning plans. *Training, 38-41*.

## BEST PRACTICES

|  |     |
|--|-----|
| <b>Spartan Trader Retail Entrepreneurship Learning Lab</b> .....             | 291 |
| Dianne Welsh, University of North Carolina at Greensboro                     |     |
| <b>Using the SBI Model and Social Media Technology to Promote</b> .....      | 293 |
| <b>Nonprofit Education, Advocacy, &amp; Networking Across the Curriculum</b> |     |
| Patrick Walker, Lindenwood University  |     |
| <b>What's in a Name? Programmatic Research with Students</b> .....           | 295 |
| Shawn Carraher, Indiana Wesleyan University                                  |     |

# Spartan Trader Retail Entrepreneurship Learning Lab

Dianne Welsh, University of North Carolina at Greensboro

## Abstract

This Best Practice describes the Spartan Trader Experiential Learning Lab. The Spartan Trader is a student-run retail store on campus that consigns first-hand student, faculty, and staff handmade art and crafts. The purpose of the store is to provide hands-on experiential learning in small business management to our students. With a failure rate of approximately one-third of all retail businesses the first year and the large number of our students wanting to open a retail business, we opened the Spartan Trader to give them real experience *before* leaving school to have a greater chance of business success.

## Specific Need Addressed

Self-employment skillsets are developed through our Entrepreneurship Program. The Cross-Disciplinary Entrepreneurship program responds to educational demands created through dramatic changes in the nature of business. Entrepreneurship has revolutionized all aspects of business. In response to the role of the university in economic development and to develop new kinds of learning, we aligned our curricula more closely with the needs of all students to develop an entrepreneurial mindset *and skill set*. These students need to be self-sufficient through self-employment, and experience entrepreneurship not only in the classroom but in a learning lab experience *before* they graduate.

## Overall Project

Over 94,000 retail businesses started in the United States in 2011 and 44,173 survived for a failure rate of 33.3%, according to *Bizminer*, 2011. This major segment of our economy is not getting the attention it deserves on college campuses. The Spartan Trader gives real hands-on experience to apply learning from the classroom to the real world and experience success and failure before the student graduates-building core self-employment skills. This experience should increase their chances of success and get experience “making payroll” in a store open to the public-this is a collaborative effort between academic programs and the community. This project has students figure out what works and what doesn't, in a real world situation, we must make a profit to support the store expenses. The Spartan Trader is the 3<sup>rd</sup> cornerstone in our Entrepreneurship Program: Living Learning Community (LLC) (located across the street) with 54 freshman and sophomores living on one floor in Entrepreneurship, the CEO Club, and the Spartan Trader Retail Store. The CEO Club members have the store as their project-this increases the quality of experiential and co-curricular activities, while increasing stakeholder engagement. The advisor for the LLC is also the faculty advisor for the CEO Club and has two of the LLC classes run through the store working and completing projects aimed at increasing sales.

## Why a Best Practice

The Spartan Trader Retail Store fits number one-efforts to improve academic curriculums ability to build core self-employment skills by providing an experiential learning lab to gain knowledge in all aspects of retail entrepreneurship to further successful self-employment. The Spartan Trader also fits number two-efforts to increase the quality and frequency of experiential/co-curricular activities. The Spartan Trader gives students the opportunity through class projects, practicums, internships, and cross-disciplinary entrepreneurship classes conducted on-site to really understand all aspects of running a retail store and experience what it is like to be self-employed to a great extent. This practical knowledge gained before the student leaves campus hopefully would result in less failures and more successes for retail businesses.

### **How it Works**

The Spartan Trader Retail Store is a student-run retail store for first-hand consignments made by students, faculty, and staff. We actively seek consignments from artists, craftspeople, and other items from the university community-students, faculty, and staff. We consign original artwork (e.g., original paintings, drawings, ceramics, sculpture, glass, prints), housewares (e.g., small furniture, lighting fixtures, baskets, flatware, tableware, picture frames, candles, soap), fiber crafts and wearable fiber art/accessories (e.g., pillows, rugs, clothing, scarves, hats, purses), jewelry, stationary (e.g., handmade paper, unique cards, bookmarks, magnets) and other products. At Spartan Trader, we place an emphasis on sustainability and locally sourced materials while making a profit for the seller and store, which is a 50/50 split. The revenue generated pay for operation expenses for the store, the university covers the cost of the space, utilities, and security. Through selling items in the retail store, the consignees learn how to price their products, what the consumer is interested in, including product variety, colors, and styles. At the same time, the students learn all aspects of business that directly translate into self-employment skills. Spring 2012 classes are doing projects and/or completing a practicum included 82 students. Fall 2012, we have 85 students involved in some aspect of retail operations. In the fall of 2011, we had the graduate business plan class write the business plan for the store. All three Coleman Fellows grants include classes or projects that involve the Spartan Trader Retail Store in the Spring of 2013-Entrepreneurship and Dance (community performance at the Spartan Trader)-revision of a current dance course, Creative Space: The Meeting of Art and Entrepreneurship (ART/ENT new course), and a course with the Community, Entrepreneurship, and Art in the fall of 2013.

### **Evidence of Success**

This semester, we have 28 consignees, with others still considering consigning. We will have at least 30 total. Last semester we had a total of 20 consignees sell items in the Spartan Trader the entire semester. Last semester we had \$182.50 in sales for our first month being open. This semester, the Spartan Trader has had \$1,171.35 in its first month. This is a 541% increase. Our average weekly sales at this time are \$292.84.

# **Using the SBI Model and Social Media Technology to Promote Nonprofit Education, Advocacy, & Networking Across the Curriculum**

Patrick Walker, Lindenwood University

## **Abstract**

The mission of the Small Business Institute® (SBI) is to foster professional development for those engaged in experiential student team consulting and related entrepreneurship education, research and activities. The SBI program is highly regarded as the link between 1) education, 2) business, and 3) community, and has become a catalyst for introducing the concept of “nonprofit as business enterprise” using three SBI pillars. This paper will outline a conceptual framework for the intersection of the SBI model, nonprofit curriculum, and social media platforms being utilized to promote a new way of thinking about the nonprofit business sector.

## **Promoting Nonprofit Education**

In response to the realization that the nonprofit sector is a growing sector and it has a continuing need for nonprofit managers, students enrolled in the Nonprofit Administration (NPA) degree program (Bachelor of Arts and Master of Arts) are educated to be nonprofit leaders and managers through a curriculum of service learning: learning by doing. The NPA program offers a hands-out approach to education. Students are actively involved in nonprofit agencies in unique ways: while involved in the doing, students learn about planning, staffing, budgeting, organizing, implementing, and evaluating all the critical elements to have a successful nonprofit organization. The BA and MA programs are strategically built around six core competencies (Appendix A).

## **Getting Down to Business**

Nonprofits are a business enterprise; yet, people don't always perceive them to be. Only a few courses were chosen to initially begin utilizing an intentional forward-thinking business approach for the promotion of nonprofit education, advocacy, and networking. Those courses include: Leadership in Nonprofit Organizations (Appendix B), Major Gifts, Corporate Relations, & Entrepreneurial Activities (Appendix C), and Governance: Legal & Management Responsibilities of Nonprofit Boards (Appendix D).

## **Redefining Community with Social Media**

Several initiatives have been created to emphasize the importance of partnering with key business stakeholders in the local community utilizing social media platforms. Those initiatives include creating a professional development series (Appendix E) and a NPO roundtable series (Appendix F). These initiatives were developed after a realization that the BA and MA programs could make a more significant contribution to the nonprofit community by hosting a series of events whereby services could be delivered to many more organizations. Through these series, nonprofits will have an opportunity to develop a self-assessment strategy to increase their effectiveness and efficiency throughout all phases of its operation. This will be accomplished by identified topics of interest presented by business practitioners as well as academicians. Social media will be used strategically to promote both events and create connections between the classroom and “real world.”

Social media will be to play a crucial role in reaching primary target markets: undergraduate (major and minor) and graduate students enrolled in the programs, and community partners. Twitter was chosen as an initial platform based upon its ease of integration in the classroom, and increasing popularity. A social media blueprint (Appendix G) was created after reviewing the School of Human Service's Strategic Plan. Similar to the SBI model, the plan identified 3 key objectives: 1) nonprofit education, 2) nonprofit advocacy,

and 3) nonprofit networking. Building upon these objectives, Twitter will primarily be used throughout the semester to connect student learning to real-world nonprofit business scenarios and decision-making. Guidelines for using social media were also established (Appendix H).

### **Bringing It All Together**

The NPA program intentionally emphasizing collaborations between for profit and nonprofit businesses is certainly one important type of strategic alliance. The growth rate of the nonprofit sector, recognized for outpacing both the business and government sectors, is largely spawned by need-based community activities and ideologically led mission programs (Wing, Pollak, and Blackwood, 2008). Nonprofit leaders and nonprofit boards of directors similarly have a responsibility to understand their organizations' economic and service niches as they plan for the future (Wing, Pollak, and Blackwood, 2008). Coordinating the resources and assets of the community, therefore, is an opportune occasion for collaborative partnerships.

Key to the nonprofit education, advocacy, and networking are nonprofits connecting with other nonprofits to create a sustainable synergy. Nonprofit organizations "are increasingly forming alliances, partnerships, and collaborations, both within and across sectors, to achieve important purposes" (Guo and Acar, 2005). There are many factors to consider when understanding the factors associated with the choice of collaboration forms by nonprofit organizations (Hettche and Walker, 2010). Establishing a network of clients and donors, therefore, while simultaneously attending to the mission and goals of the organization, requires astute attention to the interests of those in the community, awareness for potential conflicts of interest, and a general sensitivity to complex stakeholder preferences.

### **Conclusion**

Emphasizing education, business, and community, the SBI Model serves as a conceptual framework both for small businesses and nonprofit organizations. Only a few universities in the USA offer a degree program in nonprofit education; for universities with this curriculum, implementing key business practices that embrace the art and science of nonprofit education are essential to their survival. Critical to nonprofit curriculum's success will be an alignment among nonprofit education, advocacy, and networking with community business partners.

## What's in a Name? Programmatic Research with Students

Shawn Carraher, Indiana Wesleyan University

### Abstract

Need – This program is designed to meet the needs of the profession, university, and educational programs in terms of student involvement in the research and publication processes.

Program/Process/Pedagogy – Are research and publishing important to academics? What about to entrepreneurship or even business in general? Should students be involved in research? What about undergraduate students? This presentation shall talk about how to involve students in the research process including all the way down to the Freshman level. The ability of a university to receive many public and private grants is influenced by the number and percentages of students involved in research and publication. The process began with the selection of an instrument to validate and a talk with the human subjects committee. Data was then collected, a review of the literature, and data entry are all completed and then the data is analyzed, discussion is written, and future research is suggested. The papers were then submitted for conference review and then to a journal. Data sets from health care, entrepreneurs, and the general population have been used.

Contribution- while many programs seek to teach students HOW to do research and a few seek to teach students HOW to publish few actually take the next step and have the students go out and do it. We began having students focus on cases as opposed to empirical papers but then found that it is easier for the students to take the next step and get them published if they are empirical research papers.

In 2005 we had two student cases presented at the Association for Small Business & Entrepreneurship conference - and one of them won the best student case award at the conference while the other was the first runner-up. In 2006 we had 5 student cases presented at the ASBE conference. In 2005 we had 3 student papers accepted for presentation at the Academy of Entrepreneurship conference and in 2006 we had 7 student papers accepted at the Academy of Entrepreneurship conference and two at the ASBE conference. In 2007 one student paper was presented at the U.S. Association for Small Business & Entrepreneurship - and it was the best Graduate student and Best overall paper from the Corporate Entrepreneurship Division, one student paper was presented at the SouthWest Academy of Management, seven undergraduate student papers [two of them also include a graduate student coauthor] and six graduate student papers were presented for the Academy of Entrepreneurship and three graduate student cases were presented for the International Academy for Case Studies. A submission by a graduate student on nanotechnologies was also presented at the 2007 Academy of Management conference.

Three student papers were presented for the 2008 Small Business Institute® conference with four authors being graduate students and one being an undergraduate. Seven student papers and seven cases were presented at the 2008 Association for Entrepreneurship, Family Business, & Franchising conference. Three papers were presented at the 2008 Academy of International Business SouthWest Division meeting. One coauthored with two MSE students was also accepted to be the opening paper of the opening session of the 20th anniversary of the Oxford University Roundtables. Three cases coauthored by four graduate and one undergraduate student was presented at the 2008 International Academy for Case Studies meeting and one paper coauthored with one graduate and one undergraduate student was presented at the Spring 2008 Academy of Entrepreneurship conference. Another paper coauthored with an MSE student and an undergraduate student was presented at the 2008 Oxford Business & Economics conference. Twelve student papers (10 with graduate and 5 with undergraduate student coauthors) were presented at the Academy of Health Care Management conference.

For 2009 two student papers (one with two undergraduate student coauthors and the other with two graduate student coauthors) were presented with the Academy of International Business, SW. One paper coauthored with two undergraduate students was presented at the 2009 Oxford Business & Economics conference. In the Spring one paper coauthored with an undergraduate student was accepted for presentation at the Academy of Entrepreneurship meeting, 2 papers coauthored with graduate students (one MBA and one MSE) were accepted for the Academy of Marketing Studies, one paper coauthored with an MBA student was accepted for the Academy of Strategic Management, two papers coauthored with an undergraduate and an MBA (with an MD) were accepted for the Academy of Health Care Management, one paper coauthored with an MBA student was accepted for the Academy of Organizational Culture, Communications, & Conflict, and four papers coauthored with one undergraduate, one MBA, and one MSE student were accepted for the Academy for Studies in International Business. Sixteen papers authored by graduate students were presented at the regional meeting of the Small Business Institute®. One paper was presented at the Rocky Mountain Neurosurgical Society meeting and another two were accepted for presentation at Cambridge University. In the summer four papers were accepted for the Academy of Strategic Management, three for the Academy of Health Care Management, two for the Academy of Accounting and Financial Studies, and one each for the Academy for Studies in International Business, the Academy of Marketing Studies, Insights into the Sustainable Growth of Business conference, and the Academy of Entrepreneurship. For the Fall three papers were presented for the Academy of Healthcare Management and one each for the Academy of Entrepreneurship and the Academy of Strategic Management. Two papers coauthored with students were presented at Cambridge University in Oct. 2009. One student coauthored paper presented at St. Hughes for June 2010.

In the Fall of 2010 ten papers were presented domestically with 28 students coauthors [4 for Academy of Entrepreneurship, 3 for the Academy for Studies in International Business, 2 for the Academy of Health Care Management, 1 for the Academy of Strategic Management]. Two student papers were presented in Malaysia at the Academy for Global Business Advancement with 6 student coauthors. In the Spring of 2011 4 papers and 1 case were accepted for presentation at the Cambridge Business & Economics Conference with one student paper coauthored with 3 undergraduate students. One paper coauthored with 1 student presented at Harris Manchester College, Oxford University in March. 29 Small Business Institute® projects were completed, 6 students working on starting businesses. Twenty-two papers coauthored with 22 students were presented domestically in April 2011 [6 for Academy for Studies in International Business, 5 for International Academy for Case Studies, 4 for the Academy of Strategic Management, 3 for the Academy of Entrepreneurship, 3 for the Academy of Organizational Culture, Communications, & Conflict; and 1 for the Business Studies Academy].

Five papers were coauthored with 17 students in the Fall of 2011 including papers for the Academy of Entrepreneurship, the Academy for Studies in International Business, the Academy of Healthcare Management, the Academy of Marketing Studies, and the Academy of Strategic Management. Three papers coauthored with colleagues were accepted for the Baltic Management Research Association meeting in Kaunas and another colleague coauthored paper was accepted for the Academy of Legal, Ethical, and Regulatory Issues meeting. We had 22 students [39 student coauthors] who traveled to Cambridge in June 2012 to make 17 academic presentations. Eighteen students traveled to Harvard University in order to present 12 papers. Executive Vice President gave keynote address at Cambridge. Thirteen papers coauthored for the Spring Allied Academies conference including papers with the Academy of Accounting & Financial Studies, Academy of Entrepreneurship (4), Academy for Economics and Economic Education, Academy of Educational Leadership, Academy of Health Care Management, Academy of Information and Management Science, Academy of Marketing Studies Journal, Academy of Organizational Culture, Communications, & Conflict, Academy of Studies in International Business, and the Academy of Strategic Management. Twelve papers with students were accepted for the Fall 2012 Allied Academies conference.

Twenty-six student papers were accepted for journal publication - with 20 of them being by graduate students and 9 by undergraduate students [several are coauthored by both graduate & undergraduate students]. Eight papers have been published in edited annuals. Student coauthors have included MBA and MSE students while the undergraduate student coauthors have included Freshmen, Sophomores, Juniors, and Seniors.

What do students get out of the research process? In addition to learning more about a specialized area in a way that reading a book doesn't accomplish it can also help them in their careers. An example is a student who we'll call Lisa. She began her Master's of Science in Entrepreneurship program in 2006 and finished in 2008. She was working as an adjunct professor for a community college in N.C. while enrolled in the on-line program. She earned \$12,000 a year at the start of the program and at the end of the program she was earning \$18,000 a year. She tried to find employment elsewhere but was unsuccessful until she included that she had coauthored a paper presented at Oxford University. As a reference of hers I received a call from the Director of Human Resources from a 13-site organization in North Carolina and her main interest was in whether or not Lisa had coauthored the paper presented at Oxford. I told her that Lisa had and Lisa then received an offer to earn \$60,000 a year as the Director of Technology for that organization. Two years later I received another call as Lisa was trying for another position. Once again the Director of Human Resources for the position was interested in whether or not Lisa had coauthored a paper at Oxford. She was earning \$80,000 in her old job but then jumped to \$120,000. She currently earns \$135,000 in 2012 – so in six years research helped her go from \$12,000 a year to \$135,000. While job satisfaction, pay satisfaction, or satisfaction with compensation (Carraher, 1991a; Carraher 1991b; Carraher, 2011; Carraher & Buckley, 1996; Carraher & Carraher, 2005; Carraher, Gibson, & Buckley, 2006; Scarpello & Carraher, 2008; Sturman & Carraher, 2007; Williams, Brower, Ford, Williams, & Carraher, 2008) is not the only objective of working – it certainly helps to reduce tension, stress, and turnover (Carraher & Buckley, 2008). Publishing helps with all types of learning styles and cognitive styles in terms of learning and performing (Carraher, 1993; Carraher, 1995).

This session shall go through how to get students and other faculty involved in the research process and how to mentor those not used to the SBI process (Carraher, Sullivan, & Crocitto, 2008; Crocitto, Sullivan, & Carraher, 2005).

### References

- Carraher, S. (1991). A validity study of the pay satisfaction questionnaire (PSQ). *Educational and Psychological Measurement*, 51 (2), 491-495.
- Carraher, S. (1991). On the dimensionality of the pay satisfaction questionnaire. *Psychological Reports*, 69 (3 Pt. 1), 887-890.
- Carraher, S. (1993). Another look at the dimensionality of a learning style questionnaire. *Educational and Psychological Measurement*, 53 (2), 411-415.
- Carraher, S. (1995). On the dimensionality of a learning style questionnaire. *Psychological Reports*, 77 (1), 19-23.
- Carraher, S.M. (2011). Turnover prediction using attitudes towards benefits, pay, and pay satisfaction among employees and entrepreneurs in Estonia, Latvia, & Lithuania. *Baltic Journal of Management* 6 (1), 25-52.
- Carraher, S. & Buckley, M. R. (1996). Cognitive complexity and the perceived dimensionality of pay satisfaction. *Journal of Applied Psychology*, 81 (1), 102-109.
- Carraher, S.M. & Buckley, M.R. (2008). Attitudes towards benefits and behavioral intentions and their relationship to Absenteeism, Performance, and Turnover among nurses. *Academy of Health Care Management Journal*, 4 (2), 89-109.

- Carraher, S. & Carraher, S.C. (2005). Felt fair pay of small to medium, sized enterprise (SME) owners in Finland and Latvia: An examination of Jaques' equity construct. *Journal of Small Business Strategy*, 16 (1), 1-8.
- Carraher, S., Carraher, S.C., & Whitely, W. (2003). Global entrepreneurship, income, and work norms: A Seven country study. *Academy of Entrepreneurship Journal*, 9 (1), 31-42.
- Carraher, S. & Chait, H. (1999). Level of work and felt fair pay: An examination of two of Jaques' constructs of felt fair pay. *Psychological Reports*, 84 (2), 654-656.
- Carraher, S., Gibson, J., & Buckley, M. (2006). Compensation satisfaction in the Baltics and the USA. *Baltic Journal of Management*, 1 (1), 7-23.
- Carraher, S.M., Paridon, T., Courington, J., & Burgess, S. (2008). Strategically teaching students to publish using health care, general population, and entrepreneurial samples. *International Journal of Family Business*, 5 (1), 41-42.
- Carraher, S., Sullivan, S. & Carraher, S.C. (2005). An examination of the stress experience by entrepreneurial expatriate health care professionals working in Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Niger, Nigeria, Paraguay, South Africa, and Zambia. *International Journal of Entrepreneurship*, 9, 45-66.
- Carraher, S.M., Sullivan, S.E., & Crocitto, M. (2008). Mentoring across global boundaries: An empirical examination of home- and host-country mentors on expatriate career outcomes. *Journal of International Business Studies*, 39 (8), 1310-1326.
- Crocitto, M., Sullivan, S., & Carraher, S. (2005). Global mentoring as a means of career development and knowledge creation: A learning based framework and agenda for future research. *Career Development International* 10 (6/7), 522-535.
- Scarpello, V. & Carraher, S.M. (2008). Are pay satisfaction and pay fairness the same construct? A cross-country examination among the self-employed in Latvia, Germany, the UK, and the USA. *Baltic Journal of Management*, 3 (1), 23-39.
- Sturman, M. & Carraher, S. (2007). Using a Random-effects model to test differing conceptualizations of multidimensional constructs. *Organizational Research Methods*, 10 (1), 108-135.
- Williams, M.L., Brower, H.H., Ford, L.R., Williams, L.J., & Carraher, S.M. (2008). A comprehensive model and measure of compensation satisfaction. *Journal of Occupational and Organizational Psychology*, 81 (4), 639-668.

### **Examples of Student Faculty Research**

- Ahmed, Z.U., Zgheib, P., Carraher, S.M., & Kowatly, A.K. (accepted). Public policy and expatriate entrepreneurs. *Journal of Entrepreneurship and Public Policy*.
- Buckley, M., Fedor, D., Carraher, S., Frink, D., & Marvin, D. (1997). The ethical obligation to provide recruits realistic job previews. *Journal of Managerial Issues*, 9 (4), 468-484.
- Buckley, M., Mobbs, T., Mendoza, J., Novicevic, M., Carraher, S., & Beu, D. (2002). Implementing realistic job previews and expectation lowering procedures: A field experiment. *Journal of Vocational Behavior*, 61 (2), 263-278.
- Buckley, M., Fedor, D., Veres, J., Wiese, D., & Carraher, S. (1998). Investigating newcomer expectations and job-related outcomes. *Journal of Applied Psychology*, 83, 452-461.
- Burgess, S., Johnson, C., & Carraher, S.M. (2008). Cameron University Leaders and Entrepreneurs: Developing the next generation of leaders and entrepreneurs. *International Journal of Family Business*, 5 (1), 45-46.
- Burgess, S., Johnson, C., & Carraher, S.M. (2008). Cameron University Leaders and Entrepreneurs: How to develop the next generation of leaders and entrepreneurs at your university. *International Journal of Family Business*, 5\_(1), 65-66.

- Carpenter, C. & Carraher, S. M. (2007). An examination of the reliability of a measure of Porter's five factors model among business leaders. *International Journal of Family Business*, 4 (1), 87-90.
- Carraher, S. & Michael, K. (1999). An examination of the dimensionality of the Vengeance Scale in an entrepreneurial multinational organization. *Psychological Reports*, 85 (2), 687-688.
- Carraher, S.M., Yuyuenyongwatana, R., Sadler, T., & Baird, T. (2009). Polychronicity, leadership, and language influences among European nurses: Social differences in accounting and finances, *International Journal of Family Business*, 6 (1), 35-43.
- Chan, S. & Carraher, S. (2006). Chanian chocolate: Ethical leadership in new business start-ups. *International Journal of Family Business*, 3 (1), 81-97.
- Davis, T., Schwarz, A. & Carraher, S. (1998). Validation study of the motivation for occupational choice scale. *Psychological Reports*, 82 (2) 491-494.
- Francis, D., Huang, L., & Carraher, S. (2004). Top management teams and friendship: Results from the USA and Taiwan. *International Journal of Family Business*, 1 (1), 73-86.
- Huang, L.Y. & Carraher, S. (2004). How effective are expatriate management and guanxi networks: Evidence from Chinese Industries. *International Journal of Family Business*, 1 (1), 1-23 .
- Karsteter, K., Brown, N., & Carraher, S. (2006). From the Artist's hand: Managing arts and crafts businesses. *International Journal of Family Business*, 3 (1), 69-78.
- Keyes, C., Vinson, T., Hay, S. & Carraher, S. M. (2007). Parrish photography Part 1: Strategic Ethical Leadership. *International Journal of Family Business*, 4 (1), 67-82.
- Krishnan, V.S., Duan, J., Carraher, S.M., & Chan, S. (2007). GPS Real Estate Services. *Journal of Applied Management & Entrepreneurship*, 12 (4), 51-59.
- Phelps, J. & Carraher, S.M. (accepted). Factors affecting entry into foreign medical device markets. *Academy of Health Care Management Journal*.
- Phelps, J. & Carraher, S.M. (accepted). Barriers to surgeon-driven innovation in health care. *Academy of Health Care Management Journal*.
- Smothers, J., Hayek, M., Bynum, L.A., Novicevic, M.M., Buckley, M.R., & Carraher, S.M. (2010). Alfred D. Chandler, Jr: Historical impact and historical scope of his works. *Journal of Management History*, 16 (4), 521-526.
- Sullivan, S.E., Carraher, S.M., Baker, L., Cochrane, D., & Robinson, F. (2009). The entrepreneurial dilemma: Grow or status quo?: A real case. *Journal of Applied Management & Entrepreneurship*, 14 (4), 37-53.

## WORKSHOPS

|   |     |
|---|-----|
| <b>BusinessUSA.gov Workshop: An Interactive Analysis and Critique of the New Official Government Website with a Focus on Small Business Facts, Resources and Regulation for Academics and Practitioners Using an AACSB-International Attitude About Assurance of Learning</b><br>Stephanie Bardwell, Christopher Newport University | 301 |
| <b>Critical Governance Insight for Social Entrepreneurs, Nonprofit Advocates, &amp; Other Catalysts Who Work to Change the World</b><br>Patrick Walker, Lindenwood University   | 304 |
| <b>Effective Use of the Librarian in Business Courses</b><br>D. Lynn Hoffman, Metropolitan State University<br>William Tietjen, University of Colorado Denver<br>Debora Gilliard, Metropolitan State University of Denver   | 308 |
| <b>Experiential Learning Projects – A Process Model for Student Consulting</b><br>Ron Cook, Rider University<br>Diane Campbell, Rider University  | 310 |
| <b>Experiential Learning: Integrating the Best Practices of the NSEE into the Classroom</b><br>Stephanie Thomason, Amy Brownlee, & Dean Koutroumanis<br>The University of Tampa   | 312 |
| <b>Talent Retention and Organizational Effectiveness Through Personal Values Fulfillment</b><br>Ilene Ringler, Ilene Ringler Associates   | 313 |
| <b>Teaching Entrepreneurship: A New Financial Template for Preparing Business Plan Financials</b><br>William E. Wise, Metropolitan State University of Denver   | 314 |
| <b>Teaching Opportunity Recognition and Assessing Learning Outcomes</b><br>Rebecca J. White, University of Tampa  | 316 |
| <b>What Does the Future of the AACSB Standards Hold?</b><br>Shawn Carraher, Indiana Wesleyan University<br>Sarah Carraher, Indiana Wesleyan University  | 319 |

# **BusinessUSA.gov Workshop: An Interactive Analysis and Critique of the New Official Government Website with a Focus on Small Business Facts, Resources and Regulation for Academics and Practitioners Using an AACSB-International Attitude About Assurance of Learning**

Stephanie Bardwell, Christopher Newport University

## **Purpose and General Procedures**

The purpose of this workshop is to fully inform the audience about the new official United States web based internet site called BusinessUSA.gov. The workshop is organized into three related interactive segments that include Part I, “Snapshot of BusinessUSA.gov” with a seminar style analysis and critique; Part II, “Exploiting the Data, Opportunities and Law”; and Part III, “Small Business Facts, Resources and Regulations for 2013 and Beyond”.

The workshop is fully interactive; each segment will include systemic mapping and implications for pedagogy and practice. In Parts I, II and III, the audience will participate in modelling and mapping, as well as be able to answer and pose questions throughout each segment. The intellectual content of the workshop will be treated as a curricular model with specific learning outcomes; so, for example, in Part I the curricular content includes material related to business, economics and law that is on the BusinessUSA.gov site. In Part II, the curricular content includes surveys, demographic and financial information. In Part III, the curricular content includes opportunities, regulations and concerns that specifically pertain to SMEs. Details of the activities, procedures and audience “Takeaways” within each segment and for the overall BusinessUSA.gov workshop are fully described below.

## **Takeaways for the Audience**

This workshop is purposely designed for several specific measureable “takeaways” for the audience. It follows a SWBAT© “learning assurance” model that can be utilized in AACSB-International® assurance of learning guidelines. SWBAT© stands for “Students Will Be Able To” and refers to the distinct skill based knowledge and performance that demonstrates learning has occurred. For example, “AACSB expects accredited institutions to formulate specific learning goals and conduct appropriate direct assessments of learning for purposes of improving curricula” (AACSB White Paper No. 3 issued by: AACSB Accreditation Coordinating Committee AACSB Accreditation Quality Committee November 20, 2007).

In this BusinessUSA.gov workshop, principles of accountability and continuous improvement are integrated throughout the exercises. The audience (workshop attendees) will serve as a proxy “student audience” and will actually engage in outcomes assessment, interactive learning and skills development, AND intellectual participation in SWBAT© assurance of learning exercises. We will treat the entire workshop experience as an actual Assurance of Learning exercise with each of the three parts of the workshop demonstrating an aspect of assurance of learning. We will align each step of the BusinessUSA.gov workshop with standard assurance of learning practices.

According to the AACSB Assessment Resource Center, the outcomes assessment process typically follows these steps:

1. Define (student) learning goals and objectives
2. Align curricula with the adopted goals and objectives
3. Identify instruments and measures to assess learning
4. Collect, analyze and disseminate assessment information
5. Use assessment information for continuous improvement
6. Document and demonstrate that the assessment process is systematic and ongoing

SWBAT© accomplishes an essential aspect of Assurance of Learning [AoL] by asking the following question, “*After teaching content, what do we expect or desire our students to be able to DO?*” We must devise suitable examples of student skill QEDs [Latin for quod erat demonstrandum, which translates as “which was to be demonstrated”]. In other words, if a student can DO “X” with a specified level of mastery or competency after taking course “Y” or course “Z”, then we are assured learning has occurred. We want proof that learning has occurred; we want assurance of learning!

Identifying and *proving* learning objectives which describe a measurable attribute of the overall learning goals are exactly what we will accomplish in this BusinessUSA.gov workshop. In each of Parts I, II and III, specific learning objectives are defined and each of these support the overall learning objective! The following questions typify AACSB thinking about Assurance of Learning; they suggest we ask.....

1. What will our students learn in our program? What are our expectations?
2. How will they learn it?
3. How will we know they have learned it or not?
4. What will we do if they have not learned it?

We will ask and answer each of these questions in the BusinessUSA.gov workshop

Finally, using the SWBAT© model, this BusinessUSA.gov workshop will test and report exactly what Students Will Be Able To do as a result of studying and “learning” the curricular material presented in the BusinessUSA.gov workshop. We will accomplish this through a short test of the audience after they complete the BusinessUSA.gov workshop.

The balance of this BusinessUSA.gov workshop description details the exact content in each of the three Parts I, II, and III, and the overall learning goals. It also states the specific learning objectives and SWBAT© “testing instrument” and explains all the anticipated methodologies planned for the workshop and its audience/participants.

### **Overall Learning Goal and Specific Learning Objectives**

The overall learning goal of this workshop is to fully inform the audience about the new official United States web based internet site called BusinessUSA.gov and to encourage its use in teaching, consulting and research.

The specific learning objectives of this workshop are integrated into each Part I, II and III; they are expressed in SWBAT© language, that is, “Student Will Be Able To.....” do specific tasks or know certain information; each SWBAT© challenge response is then rated to establish student mastery or competency in achieving the learning objective. These are displayed as a TABLE within each Part I, II, and III of the workshop and exist as follows:

#### I. Snapshot of BusinessUSA.gov

##### *Specific learning objectives*

|   |   |
|---|---|
| Test Question: SWBAT© - Student Will Be Able To.....  | Evaluate Response of Student on this Scale<br>0-1-2-3   |
| [a] Name <u>several</u> different Federal administrative agencies that provide information on the website | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |

|  |   |
|--|---|
| [b] Name <u>several</u> data sets available from the Bureau of Census  | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |
| [c] Name <u>several</u> specialty business sub-groups targeted on the website- for example, “veteran business assistance”. [Note “veterans” cannot be counted as one of your answers.] | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |

## II. Exploiting the Data, Opportunities and Law

### *Specific learning objectives*

|  |   |
|--|---|
| Test Question: SWBAT© - Student Will Be Able To.....   | Evaluate Response of Student on this Scale<br>0-1-2-3   |
| [a] Name <u>several</u> regulatory agencies which can affect the business operations             | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |
| [b] Name <u>several</u> business plan aspects for which help is available                        | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |
| [c] Name <u>several</u> types of business FORMS [legal entity types] for which help is available | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |

## III. Small Business Facts, Resources and Regulations for 2013 and Beyond

### *Specific learning objectives*

|  |   |
|--|---|
| Test Question: SWBAT© - Student Will Be Able To.....   | Evaluate Response of Student on this Scale<br>0-1-2-3   |
| [a] Name <u>several</u> different programs related to FINANCING which provide information on the website                                 | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |
| [b] Name <u>several</u> data sets available from the BLS [Bureau of Labor Statistics] accessible through the website                     | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |
| [c] Describe several ways in which IRS rules or other important tax rules or changes in regulation can affect businesses in 2012 or 2013 | 0 Inadequate [student names none];<br>1 Weak [student names only one or two];<br>2 Adequate [student names three or four];<br>3 Superior [student names five or more] |

# **Critical Governance Insight for Social Entrepreneurs, Nonprofit Advocates, & Other Catalysts Who Work to Change the World**

Patrick Walker, Lindenwood University

## **Abstract**

Recently at the Forbes 400 Summit on Philanthropy, CEO and social entrepreneur Oprah Winfrey revealed that one of her greatest regrets was not initially providing the leadership and structure necessary to fulfill the vision for her girls' academy in South Africa. Referring to an allegation of sexual misconduct by a senior academy official, at the heart of this discussion was governance: creating systems, structure, and solutions to guide expectations and decision-making. Governance for any organization is serious business, with a set of duties defined by law. Yet, many social entrepreneurs and nonprofit advocates would admit that adhering to strict legal and ethical compliance, avoiding conflicts of interest, and adopting corporate legal liability best practices while making significant social impacts is difficult. This paper will outline a governance conceptual framework built around 3 key pillars that are designed for social entrepreneurs, nonprofit advocates and other catalysts (SENAC) who work to change the world.

## **Social Entrepreneurship: A New Form of Nonprofit Advocacy**

Although the scholarship of social entrepreneurship is relatively young, the phenomenon itself is not (Bhutani, et al., 2012). Over the past few decades, social entrepreneurship has gained increasing interest amongst practitioners, academicians, and researchers globally (Alvord et al., 2004; Austin et al., 2006; Dees, 1998). According to the National Centre for Charity, the number of registered nonprofit organizations has shown an increase of almost 48 percent from 1995 to 2011 in the United States (National Centre for Charitable Statistics, 2011). Researchers have routinely associated social entrepreneurship with nonprofit organizations. One school of thought associates social entrepreneurship with not-for-profit organizations (Austin et al., 2003; Boschee, 1998). Others associate it only with not-for-profit organizations masquerading as for-profit (Reis, 1999). According to Mair & Marti (2004), "Social Entrepreneurship is defined as the innovative use of resources to explore and exploit opportunities that meet social need in a sustainable manner." David Bornstein (2004) describes social entrepreneurs as catalysts, "change agents" who serve large markets with limited resources. Central in each of these definitions of social entrepreneurship is its connection to mission-oriented themes of addressing social issues through nonprofit advocacy.

## **Why Governance is Important**

Governance is formally defined as "systems and processes that ensure the overall direction, effectiveness, supervision and accountability of an organization" (Cornforth, 2003). Traditionally, governance emphasizes a board of directors who hold the organization accountable to ensure the social enterprise fulfills its mission and protects its assets (Alter, 2000). As social entrepreneurs and nonprofit advocates address critical issues plaguing societies through employing scalable, self-sustainable and innovative business models, governance provides the framework in which they balance financial stewardship and social impact. The coordination among multiple stakeholder groups, including investors, employees, regulators, clients and beneficiaries adds to the complexity (Schwab, 2003). It becomes increasingly important to create systems, structure, and solutions to guide SENAC decision-making that ensures organizations are fulfilling their mission, protecting assets, and safeguarding multiple stakeholder interests.

## **Legally Sound**

Much of the literature surrounding social entrepreneurship has not included discussions on legal aspects of governance. Many themes in social entrepreneurship have focused on combining commercial enterprises with social impacts (Alvord et al., 2002). From this vantage point, entrepreneurs use business skills and knowledge to create enterprises that accomplish social purposes in addition to being commercially viable (Emerson and Twersky, 1996).

Basic governance begins with addressing legal issues impacting the business. Identifiable legal issues affecting new ventures are likely to include matters like business format, intellectual property, liability, regulation, contracts, tax, employment, finance and real property (Malach, Robinson & Radcliffe, 2006). No business enterprise can exist successfully without a legal plan to direct, design and even deter the principals from dangerous practices (Bardwell, 2009). Whether the business is in start-up phase, growth phase or is fully developed, all businesses and owners should use a standardized approach to check the legal soundness of their company (Bardwell, 2009). Thus, legally sound best practices for SENACs involve the intersection of social impact and critical governance insight.

### **Governance Tool 1: Strategic Thinking to Minimize Corporate Legal Liability**

SENACs come from a variety of backgrounds, practices, and schools of thoughts. However, they share in a philosophy also known as strategic service vision: a set of ideas and actions that maximizes the leverage over results over efforts directed at well-defined targets and supported with highly focused operating strategies (Dees, 2002). For SENACs, this involves envisioning various frameworks and creating a “legal vision” to support an idea’s infrastructure, with insight from a governance team comprised of board members, executives, and other key stakeholders. This fundamental governance framework addresses multiple facets for a nonprofit organization to consider when carrying out the mission and operations of the organization.

### **Governance Tool 2: Legal Liability Checklist to Minimize Conflicts of Interest**

In general, conflicts of interest exist when a SENACs’ personal or professional interests can no longer become subordinate to the organization’s best interests. Organizations should adopt conflict-of-interest policies that require board members and leaders address competing interest. Areas of consideration may include but are not limited to financial conflicts, loyalty to multiple organizations, and conflicting roles and relationships (BoardSource). Board decision-making processes are varied; in reality, decisions are made on the basis of incomplete information, under critical deadlines, or on the basis of feelings rather than by following the formalized method of decisions set forth in the law (Ott, 2012). This leaves room for legal liability that could undermine the mission and positive social impacts. Governance for SENACs should address legal issues associated with the intersection of fiduciary insight. This includes an examination of the enterprises’ articles of incorporation and bylaws; ensuring up-to-date local, state and federal filings; safeguarding stakeholder financial interests; becoming familiar with all active and prior litigation; reviewing advocacy engagement; assessing any EEOC or state agency employment filings. Finally, governance for SENACs should include an examination of various policies that impact strategic planning, board member management, and employee & volunteer handbooks.

### **Governance Tool 3: Legal Audit for Ethical Compliance**

As a field of study or discipline, ethics refers to the study of moral topics, issues, ideals, and responsibilities of character (Ott, 2012). Ethical considerations for nonprofit organizations and social entrepreneurs require decision-making that goes above and beyond what law requires. There are several theories about ethical behavior and what it means for social enterprises. Because of the unique historical and societal dimensions of their character and function, expectations about what constitutes ethical behavior in and by nonprofit, and especially philanthropic, organizations differ from expectations placed on other organizations (Ott, 2012).

An implicit social contract undergirds the presence and function of the nonprofit business sector (Ott, 2012).

### **Conclusion: Implications for Future Research**

Real social change occurs when organizations think beyond themselves and their limited resources to embrace innovative governance strategies and ways of doing business. For the primary purpose of this paper, governance for social entrepreneurs and nonprofit advocates is the practice of providing the structure,

systems, and strategic alignment required for the infusion of legal insight decision-making throughout the organization. No matter the heart of the endeavor or good works, governance plays a critical role in providing structure to social impact. Additional research will focus on creating a model that combines the three governance tools and recommendations for social entrepreneurs, nonprofit advocates, and other catalysts who work to change the world.

### References

- Alter, Sutia Kim. *Managing the Double Bottom Line: A Business Planning Guide for Social Enterprises*. Washington, D.C.: Save the Children, 2000.
- Alvord, S. H., L. D. Brown and C.W. Letts (2004). 'Social Entrepreneurship and Societal Transformation', *Journal of Applied Behavioral Science*, 40 (3), 260-282.
- Alvord, S., L. Brown and C. Letts (2002). Social entrepreneurship and social transformation: An exploration study. *The Hauser Center for Nonprofit Organizations and the Kennedy School of Government*. Harvard University Press.
- Austin, J., H. Stevenson and J. Wei-Skillern (2006). 'Social and Commercial Entrepreneurship: Same, Different, or Both?' *Entrepreneurship Theory & Practice*: Baylor University, 1, 1-23.
- Bardwell, Stephanie (2009). Legal insight decision making for small business and entrepreneurs: a judicious approach. *Entrepreneurial Executive*. Vol. 14, 65-80.
- Bhutiani, D., K. Flicker, N. Padmakumar and A. Groen (2012). Is Social Entrepreneurship Transformational Leadership in Action?, available at <http://euram2012.mindworks.ee/public/papers/paper/1235> (accessed 7 October 2012).
- BoardSource's *The Handbook of NonProfit Governance*, Jossey-Bass, 2010, p.15.
- Bornstein, D. (2004). *How to change the World: Social Entrepreneurs and the power of new ideas*, New York: Oxford University Press.
- Boschee, J. (1998). 'Merging mission and money: A board member's guide to social entrepreneurship', available at <http://128.121.204.224/pdfs/MergingMission.pdf> (accessed 7 October 2012).
- Constantine, G. (2011, November 4). Top ten things a new nonprofit general counsel should investigate. Retrieved from <http://www.venable.com/top-ten-things-a-new-nonprofit-general-counsel-should-investigate-11-04-2011/>
- Cheng, W. (2008). *Doing Good Well: What does (and does not) make sense in the nonprofit world*. San Francisco: Wiley.
- Crutchfield, L. R., & Grant, H. M. (2012). *Forces for Good: The Six Practices of High-Impact Nonprofits*. San Francisco: Jossey-Bass.
- Dees, J.G. (1998). 'Enterprising Nonprofits', *Harvard Business Review*. January- February 1998, 55-67.
- Dees, J., J. Emerson and P. Economy (2002). *Strategic tools for social entrepreneurs: Enhancing the performance of your enterprising nonprofit*. Wiley Press.
- Emerson, Jed and Fay Twerksy, eds. September 1996. *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-Profit Enterprise Creation*. San Francisco, The Roberts Foundation, Homeless Economic Development Fund.
- Forbes, M. (2012, September 18). Oprah Winfrey talks philanthropy, failure and what every guest – including Beyoncé – asks her. Retrieved from <http://www.forbes.com/sites/moiraforbes/2012/09/18/oprah-winfrey-talks-philanthropy-failure-and-what-every-guest-including-beyonce-asks-her/>
- Futter, V. & Runquist, L.A. (2007). *Nonprofit resources* (2<sup>nd</sup> ed.). Chicago: American Bar Association.
- Herman, R. D., & Heimovics, R. D. (1991). *Executive Leadership in Nonprofit Organizations*. San Francisco: Jossey-Bass.

- Mair, J. and I. Marti (2004). 'Social Entrepreneurship research: A source of explanation, prediction and delight', *IESE Business School- University of Navarra Working paper*, WP No. 546.
- Malach, S., P. Robinson and T. Radcliffe (2006). Differentiating legal issues by business type. *Journal of Small Business Management*. 44(4), 567-576.
- Ott, J.S. & Dicke, L. A. (2<sup>nd</sup> ed.) (2012). *Understanding nonprofit organizations: Governance, leadership and management*. Boulder: Westview Press.
- 'Registered Non Profit Organizations by Country' available at [http://nccsdataweb.urban.org/tablewiz/tw\\_bmf.php](http://nccsdataweb.urban.org/tablewiz/tw_bmf.php) (accessed 7 October 2012).
- Reis, T. (1999). 'Unleashing the New Resources and Entrepreneurship for the Common Good: a Scan, Synthesis and Scenario for Action. Battle Creek, MI: W. K. Kellogg Foundation: 27 pp.
- Scofield, R. (2011). *The social entrepreneur's handbook: How to start, build, and run a business that improves the world*. New York: McGraw Hill.

## **Effective Use of the Librarian in Business Courses**

D. Lynn Hoffman, Metropolitan State University  
William Tietjen, University of Colorado Denver  
Debra Gilliard, Metropolitan State University of Denver

### **Abstract**

Educators and students are inundated with information in today's society. Paradoxically, many students do not exhibit adequate research skills and either do not know or are disinterested in determining credible from non-credible sources. The workshop will explore approaches in two separate classes that used limited librarian involvement in one course to another that specifically embedded the librarian throughout the class. The results will be explained and audience input on what others have tried will be encouraged.

### **Workshop Proposal**

Organizations today are inundated with information that may or may not be credible and reliable (Anderson and May, 2010) coincident with the corresponding need for accurate information for decision making. This is particularly true for those organizations in turbulent environments (Daft & Marcic, 2011). When significant changes occur in an environment our graduates at all levels of an organization need the skills to discern that a change has occurred and the ability to direct resources efficiently and effectively. Our graduates need to be information literate to provide their employers with these necessary skills, which requires that educational institutions must teach, develop, and assess literary information skills.

Literary information skills are necessary in any business class with a research component. A partial list includes entrepreneurial business plan writing courses, strategic planning, several human resource courses, and advanced research courses. In both entrepreneurial business planning and strategic planning students must perform an environmental scan. They must be able to detect environmental changes that will create or de-create windows of entrepreneurial opportunity or that require strategic changes. These changes may include changes in industry growth rates, globalization, changes in who buys a product and how they use it, technological, entry or exit of major firms, regulation, government policy, and social concerns, attitudes and life choices (Thompson et al, 2012). Once a change is detected, students must be able to perform information searches and viable recommendations.

The Association of College and Research Libraries (ACRL, 2002) defines information literacy as "...a set of abilities requiring individuals to 'recognize when information is needed and have the ability to locate, evaluate, and use effectively the needed information.'" Unfortunately there are numerous barriers to information literacy. Anderson and May (2010) found that most students believe that they have adequate skills. Having grown up with the internet many assume that they can just Google to find an answer (Archer et al, 2009). This fault likes not just with students but many scholars who also use informal methods to perform searches (Archer, 2009). In addition, students may not be aware of other academic search engines or procedures and not able to apply search skills to other areas.

The authors have experimented in two different courses over the last few years on various methods of library to faculty collaboration. There is a scale of librarian involvement with one end involving minimal librarian input to extensive library input at the other. At a minimum a librarian can explain what sources that library has available, how to use them, and how to do various searches. This method was used twice in the Small Business Institute Consulting class. In addition, the librarian developed web pages for each consulting team explaining the sources that were available for their client's industry. Courses at the other end of the spectrum embed the librarian into the class. The most extensive involvement includes the librarian in not only training of information literacy but grading information literacy of the final papers.

The presenters will explain what methods they have tried and what worked and did not work. The session will then be opened for other faculty to share what they have tried.

### References

- AACU (2002). Greater expectations: A new vision for learning as a nation goes to college. *Association of American Colleges and Universities, Washington, D.C.*
- ACLR (2002). Information literacy competency standards for higher education. *Association of College and Research Libraries*. Chicago, Ill. Retrieved 8/11, 2011 from [www.ala.org/ala/acrl/acrlstandards/standards.pdf](http://www.ala.org/ala/acrl/acrlstandards/standards.pdf)
- Anderson, K. & May, F.A. (2010). Does the Method of instruction matter? An experimental examination of information literacy instruction in the online, blended, and face-to-face classrooms. *The Journal of Academic Librarianship* 36 (6) 495-500.
- Archer, J.; Hanlon, A.M.; & Levine, J.A. (2009). Investigating primary source literacy. *Journal of Academic Librarians* 35 (5) (Summer 2009).
- Daft, R.L. & Marcic, D. (2013). *Understanding Management*. 8<sup>th</sup> ed. Cengage: Canada.
- Thompson, A.A., Peteraf, M.A., Gamble, J.E., Strickland III, A.J. (2012). *Crafting and Executing Strategy*, 18<sup>th</sup> ed., McGraw-Hill Irwin: New York, NY.

# Experiential Learning Projects – A Process Model for Student Consulting

Ron Cook, Rider University  
Diane Campbell, Rider University

## Narrative

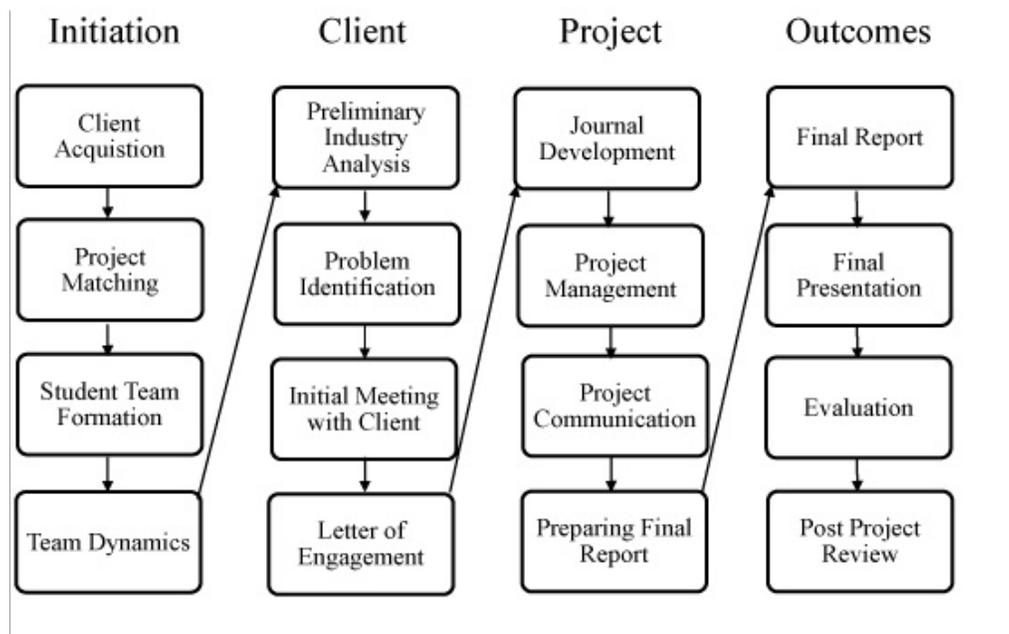
A problem-based learning (PBL) approach is the foundation to student team consulting (STC). This experiential approach uses a cooperative (team) environment to focus on building critical thinking skills and typically offers an inter-disciplined approach to complex issues. The learning that occurs as a result in STC is unparalleled, as it requires an integrated holistic approach that strengthens students' research abilities (Matthews, 1998).

STC courses have students working in the field as consultants, under faculty supervision, helping firms/organizations. By its very nature, this experiential learning requires students to learn the consulting process while actually conducting the consulting engagement. One of the difficulties in this learning environment is that in these situations, information can change over the course of the consulting project.

Therefore, students often benefit from some structure to temper the ambiguity of a consulting engagement, as often the instructor does not have a traditional class format. To help students better understand the STC process, the presenters will introduce a process model can clarify the roles in fieldwork situations and allow students to ground their consulting activity.

## Outcomes/Take-aways

The presenters will explain how the pedagogically sound, integrative process model provides the structure needed to better manage STC projects. They will focus on how the model helps students succeed- from understanding team dynamics to the creation of comprehensive letters of engagement to the preparation and presentation of final reports. Participants would come away with a logical flow of the consulting process and a way to utilize PBL techniques to strengthen the teaching and oversight of experiential student projects. Please refer to the following process model:



### **Conclusion/”So What”**

The goal of this workshop is to demonstrate a way to enhance the structure of experiential learning projects. Participants will use a sample client request and show how that, by using the model, instructors can better oversee a project while providing students with clear expectations. As STC projects involve a third party and a “live” environment, the ambiguity that will typically occur in projects can be less disruptive and better managed with this tool.

### **References**

Matthews, Charles, 1998. “The Small Business Institute Program: High Impact Entrepreneurship Education”, *Journal of Small Business Strategy*, 9(2):14-22.

## **Experiential Learning: Integrating the Best Practices of the NSEE into the Classroom**

Stephanie Thomason, Amy Brownlee, & Dean Koutroumanis  
The University of Tampa

This workshop will offer insight into the classroom integration and application of the Eight Principles of Best Practices in Experiential Education developed by the National Society of Experiential Education (NSEE). It is no secret that student learning and retention is enhanced through effective teaching and that teaching is enhanced by practice and application. The Eight Principles offers a framework upon which instructors can draw to effectively deliver their courses and assure learning.

The session will begin with a brief overview of the NSEE Eight Principles of Best Practices: Intention, Preparedness and Planning, Orientation and Training, Authenticity, Reflection, Assessment and Evaluation, and Monitoring and Continuous Improvement. This discussion will be followed by a presentation of techniques used by several professors that incorporate these practices to enhance classroom delivery. Next, participants will be asked to share their own best classroom practices in an experiential exercise.

# Talent Retention and Organizational Effectiveness Through Personal Values Fulfillment

Ilene Ringler, Ilene Ringler Associates

The talent wars are here. Even in an economic downturn, retaining talent should be a top priority for all business owners. “CEOs of the nation's fastest growing companies overwhelmingly cite retention of key workers as the most critical factor to plan for in the next year ahead (Pricewaterhouse Coopers, 2004)” (Frank, Finnegan, Taylor & Talentkeepers, 2004, p. 13). Martin (2012) tells us that unemployment has fallen to its lowest point in three years and, according to the Labor department, there has been an uptick in the number of Americans quitting their job since the 2007, the year the recession began.

Values satisfaction can be a key strategy for employee retention and increased organizational effectiveness. What are values? Gilmore (2008) states “Ringler defines it as an intangible feeling, a personal preference that guides every decision an individual makes” (para 5). Employee values satisfaction in their job role is important to retention and trust building in the recovering economy, “It is critically important for employers to connect with employees on a value-level to create a positive working experience, improve employee retention rates and increase trust in management” (Garlick , 2011, p. 2). Understanding how personal values satisfaction can be integrated into individual action planning to increase satisfaction with work activities can support talent retention efforts, organizational productivity, and increase the effectiveness of dollars spent on training and development.

This workshop will provide an easy to implement 3 step process and tools for employees to assess their personal values and use this information to create a job satisfaction profile. Business leaders and owners can work with employees who have created this profile to increase job satisfaction, productivity and retention.

## Workshop Objectives

1. Understand why personal values profiles are important to job satisfaction, career planning, organizational effectiveness and employee retention.
2. Understand and become proficient in the use of tools and processes in values profile and job satisfaction profile creation.
3. Create an action plan for implementation in the organization

What you will gain from this workshop - An easy to use step by step process and tools for participants to:

- define their personal values
- use this information to create a job/role profile that would encourage the greatest satisfaction with their values
- Assess their current job for values satisfaction
- Create an action plan to increase their satisfaction with their current role

## References

- Frank, F. D., & Finnegan, R. P. Taylor, C.R. & Talentkeepers. (2004). The race for talent: Retaining and engaging workers in the 21st century. *Human Resource Planning*, 27(3), 12-25.
- Garlick, Ph.D, R. (2011, October 19). A lesson in employee engagement: Reestablish trust. *Training*, Retrieved from <http://www.trainingmag.com/article/lesson-employee-engagement-reestablish-trust> .
- Gilmore, A. (2008, January). Getting personal (values). *Talent management*, Retrieved from [http://talentmgt.com/articles/view/getting\\_personal\\_\(values\)](http://talentmgt.com/articles/view/getting_personal_(values)).

# **Teaching Entrepreneurship: A New Financial Template for Preparing Business Plan Financials**

William E. Wise, Metropolitan State University of Denver

## **Abstract**

Over the century few fields of study have experienced the type of growth that entrepreneurship has seen. The number of colleges and universities offering programs and classes in entrepreneurship has increased to 2,500 and more. Specifically, entrepreneurship classes are designed to teach students how to create businesses including business plan writing.

Most, if not all, entrepreneurship textbooks do not show students HOW to prepare the requisite financial statements needed for a professional-looking business plan – one that can be presented to a banker, supplier, or potential investor.

The purpose of this workshop will be to demonstrate an Excel (Copyright) financial template for teaching students how to prepare financial statements using values predominately generated in the marketing section of their business plans. I will offer and discuss the details of this template I will provide workshop participants. This demonstration will work beneficial if everyone in the audience brings a laptop computer.

The audience will be asked to participate in a number of questions based on their opinions of the template in action. This questions session will be open to any questions that come to mind, and notes will be taken.

## **The Structure of the Workshop**

The structure of the workshop will be as follows:

1. A description of the template's capabilities;
2. The Input Sheet;
3. The financial statements that will be automatically prepared; and
4. How to determine if the students' answers are reasonable.

## **After the introduction the questions for discussion will be:**

1. How much time do you allot to teaching the Business Plan;
2. How detailed is the Business Plan your students are to prepare? and
3. How do you teach them to prepare a Balance Sheet, Profit & Loss Statement, Cash Flow Statement, Ratio Analysis Statement, and Economic Profile considering most of our students have little accounting training?

## **Brainstorming as a Group**

1. What problems do you see in using a financial template like this?
2. What do you like about it?
3. What don't you like about it?
4. What would you like to see changed? and
5. Do you think a Business Plan even needs financial statements?

## **In Conclusion**

In short, the students fill out the Input Sheet with values most of which are already generated in their marketing sections. All the above mentioned financial statements are automatically prepared by the template without the students' having to know ANY accounting.

In my experience when I begin to discuss ratios, I see a class full of glazed stares. Yet, this is one of the first places a banker or investor turns. So whether the students see the relevance of ratios, their Business Plans need them to be deemed professional.

At the end of the workshop I will summarize the discussions and provide a summary of suggested answers and opinions.

# Teaching Opportunity Recognition and Assessing Learning Outcomes

Rebecca J. White, University of Tampa

## Purpose

Opportunity Recognition (OR) is central to the entrepreneurial process. Without opportunities there is no entrepreneurship. In fact, the skills associated with learning how to plan and build entrepreneurial ventures necessarily hinges upon the ability to first create or discover an opportunity upon which to build a plan. Thus, an entrepreneurship education must include the development of opportunity recognition skills. In fact, OR may arguably be THE most critical competency mastered by a “literate” entrepreneurship student.

The need for an exploitable opportunity often presents a challenge for entrepreneurship educators in providing students with an entrepreneurship education. The research regarding OR is growing but is still scattered and has not coalesced into a model accepted and endorsed by the field. The challenges faced by researchers in OR has been with definition and with the tacit nature of OR. Historically, to deal with this problem, entrepreneurship educators have often assumed that their role begins with teaching students to exploit opportunities.

Baron maintains that opportunity recognition is the active, cognitive process or processes by which individuals conclude that they have identified the potential to create something new that has the potential to generate economic value and that is not currently being exploited or developed, and is viewed as desirable within the society in which it occurs (Baron & Ward, 2004, p.52. Based upon this definition, it follows that there is an OR process and that this process can be clarified and codified.

Moreover, as the field develops models for teaching OR, it is important to consider how the learning outcomes can be assessed. The challenges faced with teaching OR translate into problems with measurement. In sum, the tacit character of the knowledge and the experiential nature of the models used to teach OR require a special focus on assessing learning.

The goal of this workshop is to have a conversation about these topics and will focus on a discussion of best practices for teaching opportunity recognition and assessing related learning outcomes. The presenters will share pedagogies and experiential learning techniques that are being collected and catalogued by the United States Association for Entrepreneurship and Small Business (USASBE) and invite the participants to share their own experiences in teaching opportunity recognition with the group. Each model presented will include a discussion of how learning outcomes are assessed.

## Procedures:

The agenda for the workshop will include the following:

- Brief overview of literature on OR
- Presentation of several models for teaching OR
- Discussion of proactive assessment of learning outcomes
- Workshop Discussion

## Presenters:

**Alex Bruton, Associate Professor, Mount Royal College**

Throughout his fourteen year career, Dr. Bruton has been fortunate to participate and lead in work that has taken him from the Canadian Rocky Mountains, to ice floes of Greenland, to several exciting business, teaching and consulting positions in Toronto and Calgary, Canada. He has a strong background in

innovation management having co-invented and commercialized several technologies. Alex earned his MBA in Innovation and Marketing and Ph.D. in engineering. He has conducted research and led development efforts in both industrial and university settings. Alex has a strong background in business, with experience in project manager and product manager roles. He is co-founder of an Innovation Department, having recruited, developed and managed early-stage teams. Before joining Mount Royal, he worked as a consultant through his own company and as VP of Business Development for a technology start-up. In 2009 he was selected as one of Mount Royal's first Ten Teaching and Learning Scholars, a group of faculty charged with promoting a culture of systematic scholarly inquiry into teaching and learning "in their disciplines, across the institution and in partnership with other Canadian institutions." Alex's work includes: implementing what is believed to be the first Wiki Classroom in Canada's business schools; founding a community of practice and open education initiative for teaching and learning for creativity, innovation and entrepreneurship; and leading the development of a new entrepreneurship curriculum for delivery to undergraduate students across campus at Mount Royal.

**Alex F. DeNoble, Ph.D. Professor, Management Executive Director of SDSU's Entrepreneurial Management Center (EMC)**

Alex F. DeNoble is a Professor in the Management Department in the College of Business at San Diego State University (SDSU). He is also Executive Director of SDSU's Entrepreneurial Management Center (EMC). His primary areas of expertise include entrepreneurship and corporate innovation, technology commercialization and strategic management. He has conducted research in these areas and has taught related classes in the University's undergraduate, graduate and executive MBA programs. He has published articles in such journals as the *Journal of Business Venturing*, *the Journal of High Technology Management Research*, *the Journal of Technology Transfer*, *International Marketing Review*, and *Entrepreneurship: Theory and Practice*. His other professional activities encompass both executive training and strategic consulting. Recent assignments have included business plan development consulting for new and existing entrepreneurial firms, market research and analysis for technology-based companies and entrepreneurship training for Taiwanese, German, Russian, Japanese, Mexican, Middle Eastern and U.S. executives. Over the past several years, he has conducted training programs or consulted with such companies as Siemens Corporation, QUALCOMM, Delta Electronics (Taiwan), the U.S. Russia Center for Entrepreneurship, Banco Nacional de Comercio Exterior (the National Export Bank of Mexico), NEC Electronics USA, Shell Technology Ventures, and Orincon Technologies (now a part of Lockheed Martin). Dr. DeNoble is the recipient of several awards including the 2008 Monty Award from SDSU for Outstanding Faculty Contributions, 2004 Educator of the Year award from San Diego's T-Sector Magazine; the 2001 Gloria and Edwin Appel Award from the Price-Babson Fellows program for excellence in entrepreneurship education, and the 2000 Ernst & Young Entrepreneur of the Year Award.

**Rebecca J. White, Ph.D., James W Walter Chair of Entrepreneurship, Professor of Entrepreneurship and Director, UT Entrepreneurship Center.**

Rebecca J. White is the James W. Walter Distinguished Chair in Entrepreneurship and Professor of Entrepreneurship at the University of Tampa. She received an MBA and a Ph.D. in Strategic Management from Virginia Tech University and a BS from Concord University.

Prior to coming to Tampa, Dr. White was the Founding Director of the Fifth Third Bank Entrepreneurship Institute and Professor of Entrepreneurship and Management at Northern Kentucky University (NKU). During her time at NKU she participated in a faculty exchange program at Peoples Friendship University in Moscow Russia providing lectures on small business topics to students and faculty. As an educator, her primary research and teaching interests are in start-up strategies, strategic leadership in equity backed companies and entrepreneurship pedagogy. Dr. White was named the Tampa Bay Business Journal Business Woman of the

Year 2010 in the Education Category, was a 2006 Athena® Award finalist, a 2005 recipient of the Freedoms Foundation Leavey Award for Excellence in Private Enterprise Education and was named Ernst and Young Entrepreneur Supporter of Entrepreneurship in 2003. Under Dr. White's leadership the NKU program was named one of the top 25 undergraduate entrepreneurship education programs in the country by *Princeton Review* and *Entrepreneur Magazine* and one of the Top 50 MBA programs for entrepreneurship by *Women 3.0*. In addition, the program won the Global Consortium of Entrepreneurship Centers (GCEC) 2007 Excellence in Entrepreneurship Teaching and Pedagogical Innovation Award and in 2004 the AACSB Innovation in Leadership of Business Education Award. Dr. White has been awarded several distinguished research and service honors including the United States Association for Small Business and Entrepreneurship 2010 President's Distinguished Service Award. She currently serves on the Steering Committee for Startup Florida, the Executive Council of the National Consortium of Entrepreneurship Centers, is the President of the Executive Board of the United States Association for Small Business and Entrepreneurship, is a Director for NorthStar Bank in Tampa, FL and on the Board of Muzimé, Inc.

Dr. White is founder and director of the Women's Entrepreneurship Institute, an educational program for female entrepreneurs offered jointly with the New York Times. She grew up in a family business and later started several companies including *RiskAware, LLC*, ([www.riskaware.com](http://www.riskaware.com)) a risk mitigation company for higher education and *adEsse LLC*, a consulting company specializing in helping startup ventures and established firms integrate and utilize an entrepreneurial mindset

#### **Outcomes:**

Participants will leave with models of teaching OR and assessing learning outcomes that can be applied in their classrooms immediately. In addition, the workshop will encourage dialogue and conversation about one of the central components in entrepreneurship education.

## What Does the Future of the AACSB Standards Hold?

Shawn Carraher, Indiana Wesleyan University  
Sarah Carraher, Indiana Wesleyan University

In this session we shall talk about the changes in the AACSB standards which were released in Sept. 2012 and based upon an interview with John Fernandes, CEO of the AACSB we'll talk about how these changes in the standard shall likely change the future of business education.

John J. Fernandes is the President and Chief Executive Officer of AACSB International – The Association to Advance Collegiate Schools of Business. AACSB International is the world's largest association of business schools from more than 70 countries and the primary global accrediting body for business schools and accounting programs. John served prior to AACSB as Executive Vice President and Chief Operating Officer for The Institute of Internal Auditors and Vice President and General Auditor for New York City Transit. His experience includes staff and management positions with Exxon Company USA, Cameron Iron Works and Houston

Mr. Fernandes has extensive corporate governance experience as a member of the board of directors and chair of the audit committee of a large health care system. He is also on the Board of Governors of Beta Gamma Sigma and the boards of directors of the Global Foundation for Management Education, the PhD Project, Greater Tampa Chamber of Commerce and Tampa Bay & Company. John holds a bachelor's degree in business from Babson College and a master's degree in public administration from the University of Houston. He is a graduate of the Program for Senior Executives in State and Local Government, Harvard Kennedy School, and the University of Texas' Public Executive Institute. In 2006, John was recognized as the United States Association for Small Business and Entrepreneurship's Corporate Entrepreneur of the Year.

### References

- Carraher, S. (1991). A validity study of the pay satisfaction questionnaire (PSQ). *Educational and Psychological Measurement*, 51 (2), 491-495.
- Carraher, S. (1991). On the dimensionality of the pay satisfaction questionnaire. *Psychological Reports*, 69 (3 Pt. 1), 887-890.
- Carraher, S. (1993). Another look at the dimensionality of a learning style questionnaire. *Educational and Psychological Measurement*, 53 (2), 411-415.
- Carraher, S. (1995). On the dimensionality of a learning style questionnaire. *Psychological Reports*, 77 (1), 19-23.
- Carraher, S.M. (2011). Turnover prediction using attitudes towards benefits, pay, and pay satisfaction among employees and entrepreneurs in Estonia, Latvia, & Lithuania. *Baltic Journal of Management* 6 (1), 25-52.
- Carraher, S. & Buckley, M. R. (1996). Cognitive complexity and the perceived dimensionality of pay satisfaction. *Journal of Applied Psychology*, 81 (1), 102-109.
- Carraher, S.M. & Buckley, M.R. (2008). Attitudes towards benefits and behavioral intentions and their relationship to Absenteeism, Performance, and Turnover among nurses. *Academy of Health Care Management Journal*, 4 (2), 89-109.
- Carraher, S. & Carraher, S.C. (2005). Felt fair pay of small to medium, sized enterprise (SME) owners in Finland and Latvia: An examination of Jaques' equity construct. *Journal of Small Business Strategy*, 16 (1), 1-8.
- Carraher, S., Carraher, S.C., & Whitely, W. (2003). Global entrepreneurship, income, and work norms: A Seven country study. *Academy of Entrepreneurship Journal*, 9 (1), 31-42.

- Carraher, S. & Chait, H. (1999). Level of work and felt fair pay: An examination of two of Jaques' constructs of felt fair pay. *Psychological Reports*, 84 (2), 654-656.
- Carraher, S., Gibson, J., & Buckley, M. (2006). Compensation satisfaction in the Baltics and the USA. *Baltic Journal of Management*, 1 (1), 7-23.
- Carraher, S.M., Paridon, T., Courington, J., & Burgess, S. (2008). Strategically teaching students to publish using health care, general population, and entrepreneurial samples. *International Journal of Family Business*, 5 (1), 41-42.
- Carraher, S., Sullivan, S. & Carraher, S.C. (2005). An examination of the stress experience by entrepreneurial expatriate health care professionals working in Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Niger, Nigeria, Paraguay, South Africa, and Zambia. *International Journal of Entrepreneurship*, 9, 45-66.
- Carraher, S.M., Sullivan, S.E., & Crocitto, M. (2008). Mentoring across global boundaries: An empirical examination of home- and host-country mentors on expatriate career outcomes. *Journal of International Business Studies*, 39 (8), 1310-1326.
- Crocitto, M., Sullivan, S., & Carraher, S. (2005). Global mentoring as a means of career development and knowledge creation: A learning based framework and agenda for future research. *Career Development International* 10 (6/7), 522-535.
- Scarpello, V. & Carraher, S.M. (2008). Are pay satisfaction and pay fairness the same construct? A cross-country examination among the self-employed in Latvia, Germany, the UK, and the USA. *Baltic Journal of Management*, 3 (1), 23-39.
- Sturman, M. & Carraher, S. (2007). Using a Random-effects model to test differing conceptualizations of multidimensional constructs. *Organizational Research Methods*, 10 (1), 108-135.
- Williams, M.L., Brower, H.H., Ford, L.R., Williams, L.J., & Carraher, S.M. (2008). A comprehensive model and measure of compensation satisfaction. *Journal of Occupational and Organizational Psychology*, 81 (4), 639-668.

### **Examples of Student Faculty Research**

- Ahmed, Z.U., Zgheib, P., Carraher, S.M., & Kowatly, A.K. (accepted). Public policy and expatriate entrepreneurs. *Journal of Entrepreneurship and Public Policy*.
- Buckley, M., Fedor, D., Carraher, S., Frink, D., & Marvin, D. (1997). The ethical obligation to provide recruits realistic job previews. *Journal of Managerial Issues*, 9 (4), 468-484.
- Buckley, M., Mobbs, T., Mendoza, J., Novicevic, M., Carraher, S., & Beu, D. (2002). Implementing realistic job previews and expectation lowering procedures: A field experiment. *Journal of Vocational Behavior*, 61 (2), 263-278.
- Buckley, M., Fedor, D., Veres, J., Wiese, D., & Carraher, S. (1998). Investigating newcomer expectations and job-related outcomes. *Journal of Applied Psychology*, 83, 452-461.
- Burgess, S., Johnson, C., & Carraher, S.M. (2008). Cameron University Leaders and Entrepreneurs: Developing the next generation of leaders and entrepreneurs. *International Journal of Family Business*, 5 (1), 45-46.
- Burgess, S., Johnson, C., & Carraher, S.M. (2008). Cameron University Leaders and Entrepreneurs: How to develop the next generation of leaders and entrepreneurs at your university. *International Journal of Family Business*, 5 (1), 65-66.
- Carpenter, C. & Carraher, S. M. (2007). An examination of the reliability of a measure of Porter's five factors model among business leaders. *International Journal of Family Business*, 4 (1), 87-90.
- Carraher, S. & Michael, K. (1999). An examination of the dimensionality of the Vengeance Scale in an entrepreneurial multinational organization. *Psychological Reports*, 85 (2), 687-688.
- Carraher, S.M., Yuyuenyongwatana, R., Sadler, T., & Baird, T. (2009). Polychronicity, leadership, and language influences among European nurses: Social differences in accounting and finances, *International Journal of Family Business*, 6 (1), 35-43.

- Chan, S. & Carraher, S. (2006). Chanian chocolate: Ethical leadership in new business start-ups. *International Journal of Family Business*, 3 (1), 81-97.
- Davis, T., Schwarz, A. & Carraher, S. (1998). Validation study of the motivation for occupational choice scale. *Psychological Reports*, 82 (2) 491-494.
- Francis, D., Huang, L., & Carraher, S. (2004). Top management teams and friendship: Results from the USA and Taiwan. *International Journal of Family Business*, 1 (1), 73-86.
- Huang, L.Y. & Carraher, S. (2004). How effective are expatriate management and guanxi networks: Evidence from Chinese Industries. *International Journal of Family Business*, 1 (1), 1-23 .
- Karsteter, K., Brown, N., & Carraher, S. (2006). From the Artist's hand: Managing arts and crafts businesses. *International Journal of Family Business*, 3 (1), 69-78.
- Keyes, C., Vinson, T., Hay, S. & Carraher, S. M. (2007). Parrish photography Part 1: Strategic Ethical Leadership. *International Journal of Family Business*, 4 (1), 67-82.
- Krishnan, V.S., Duan, J., Carraher, S.M., & Chan, S. (2007). GPS Real Estate Services. *Journal of Applied Management & Entrepreneurship*, 12 (4), 51-59.
- Phelps, J. & Carraher, S.M. (accepted). Factors affecting entry into foreign medical device markets. *Academy of Health Care Management Journal*.
- Phelps, J. & Carraher, S.M. (accepted). Barriers to surgeon-driven innovation in health care. *Academy of Health Care Management Journal*.
- Smothers, J., Hayek, M., Bynum, L.A., Novicevic, M.M., Buckley, M.R., & Carraher, S.M. (2010). Alfred D. Chandler, Jr: Historical impact and historical scope of his works. *Journal of Management History*, 16 (4), 521-526.
- Sullivan, S.E., Carraher, S.M., Baker, L., Cochrane, D., & Robinson, F. (2009). The entrepreneurial dilemma: Grow or status quo?: A real case. *Journal of Applied Management & Entrepreneurship*, 14 (4), 37-53.