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# SMALL BUSINESS INSTITUTE® RESEARCH REVIEW

Shawn Carraher, Editor  
Cameron University

Volume 35, 2008

# **Small Business Institute® Research Review**

## **The Annual of the SBI international meeting**

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## ETHICAL ENTREPRENEURSHIP AND LEADERSHIP

Welcome to the SBI Research Review which includes a select group of papers/presentations/award nominations from the 2008 Small Business Institute® conference – the top applied educational conference. This is the first year that we shall have met apart from the U.S. Association for Small Business & Entrepreneurship in several years. As you might remember we were supposed to continue to meet with USASBE for the next couple of years but they informed us that they had chosen to NOT have us meet with them again. They unilaterally told SBI to hit the road. Up to 2009 they shall be meeting with NACE although after that NACE shall start meeting by itself in Octobers. Personally I think that we should talk with NACE to see if they might be interested in having us meet with them. USASBE might also be interested in having us come back to meet with them. After talking with Michael Hennessy and Joan Gillman in San Antonio at the same time as the 2008 USASBE conference I think that there might be some value in working with both USASBE and NACE but as USASBE changes we should have more in common with NACE or the Academy of Management. As the Program Chair for the Technology & Innovation Management Division of the Academy of Management I think that it could be beneficial for the two groups to look at holding a mid-year conference together. The AOM Divisions are starting to move in this direction. This year SBI had 95% of our reviews completed. This compares to 90 to 92% for the AOM and 38 to 50% for USASBE. I am proud to say that SBI also had a higher percentage of submissions from professors at universities than did USASBE. With the AOM the largest number of submissions came from the Judge Institute at Cambridge University. I am proud that we have a couple of authors from Cambridge University presenting at SBI and also have coauthors from some of the top U.S., Canadian, Turkish, and Chilean universities. WE need to remain ethical and work with others – both individuals and organizations – that shall also behave in an ethical manner.

You'll notice with the conference that we have a good number of Best Practices and Procedures sessions in addition to cases and research papers. This category is new to SBI. The officers had a meeting in Dallas this last Fall and we started talking about what we have learned from our own SBI experiences. We found a wealth of ideas within our members and believe that there is great value and wisdom in having us share with one another. We also need to work on identifying good ways to retain and store this collective knowledge for current and future SBI members.

The Small Business Institute® is undergoing significant changes in leadership and direction with this conference. As a group we need to decide what we are going to do. We need to have a clear vision, mission, and goals in order to have a bright future. What do we want for the future of SBI and what are we willing to do to help SBI in the future. This year Dr. Don Bradley shall have the first issue of a new SBI journal published which shall have a more applied focus. We'll have the *Journal of Small Business Strategy* as our top tier journal and the new SBI journal as our more applied journal. The Association for Entrepreneurship, Family Business, & Franchising shall also hold its first meeting as an affiliate of the Small Business Institute®. The first meeting shall be in Lawton, OK and is bringing at least 20 new members to SBI. It might be a good idea for former regional affiliates of SBI to think about closer ties to SBI and require their members to join SBI in order to increase the membership of both groups [international and

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regional]. The members of the Association for Entrepreneurship, Family Business, & Franchising shall begin with 3 journals included as part of membership – the Journal of Small Business Strategy, the new SBI Journal, and the International Journal of Family Business. It is expected that another journal shall be added within the year which shall focus on SBI consulting cases and educational topics.

I hope that you find this format for the conference to be useful. In the future it would be nice to have an editor appointed more than 1.5 weeks before the conference with a week being required to copy the CD's. I would like to thank Dr. Don Bradley and the University of Central Arkansas for their willingness to copy the CD's. I would also like to thank the Coleman Foundation for their support of Entrepreneurship and to Cindy Johnson for her assistance in preparing this manuscript [I have developed even a deeper dislike of hidden codes in WORD].

Please continue to recruit new members to SBI, remain active in SBI, and submit your finest works to SBI.

Thank you very much!

Shawn M. Carraher, Brewczynski Endowed Chair in Entrepreneurial Studies, SBI Director, Immediate Past President SBI, & Editor



# **Manuscripts**

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**OUTSTANDING PAPER WINNER:****SOCIAL CAPITAL ADVANTAGE, FACT OR FICTION: CHINESE,  
ITALIAN, JEWISH, SIKH, AND VIETNAMESE ENTREPRENEURS IN  
CANADA****Teresa V. Menzies, Brock University****Gabrielle A. Brenner, University of Montreal****Louis Jacques Filion, University of Montreal****Susan Elgie, University of Toronto****ABSTRACT**

**This study is based on interviews with 718 entrepreneurs from five ethnic groups (Chinese, Italian, Jewish, Sikh, Vietnamese) who are owner/managers of businesses in Canada. We examine whether the level of ethnic community involvement varies according to ethnic group, and if so, how this affects a range of personal and business characteristics. Findings show that the Jewish entrepreneurs exhibited the lowest mean on an Index of Ethnic Involvement (IEI). The Chinese respondents had the highest levels of ethnic involvement (EI), the Italian and Sikh had similar levels (3.4 on a scale from 1 low to 7 high), and the Vietnamese were slightly more involved (3.7). Although we cannot assert a causal relationship between the level of EI and the personal and business characteristics as the IEI has been found to account for only about 30% of variance, results show that Chinese respondents had smaller businesses with lower sales revenue while Jewish respondents had larger businesses with higher sales revenues. Future work will examine this issue with predictive models. Findings of this paper have implications for theory, practice and policy, but should be of particular interest to practitioners who are advising or training entrepreneurs or potential entrepreneurs belonging to ethnic minority groups.**

**INTRODUCTION**

Social Capital has been defined as “an asset embedded in the relationships of individuals, communities, networks, or societies (Liao & Welsch, 2005). Given the increasing globalization of new and existing ventures, study of different ethnicities in relation to their use of various forms of social capital and networks is important. In addition, due to the increased levels of immigration in many countries, the study of ethnically diverse entrepreneurs is relevant for economic, social and cultural reasons.

Some countries have historic and/or current high levels of immigration. For example, as of 2003, there were approximately 32.5 million immigrants in the US, comprising 11.5% of the population (Schimidley, 2003). Some other OECD countries have populations with a considerable number of foreign-born, for example, 21% for Australia, 19% Switzerland, 17% Canada, and 9% each for Austria, Belgium and Germany (OECD, 1998). The range of countries from which immigrants derive is usually

diverse, for example, the 2000 US Census shows the most common countries for immigrants to the US as Mexico, China, the Philippines, India, Cuba, Vietnam, El Salvador and Korea (US Census Bureau, 2000). As indicated by Light (2004), immigrants tend to concentrate in densely populated areas. In Canada, 44 percent of the population of the largest city, Toronto (population > two million), are immigrants from many different countries (Statistics Canada, Census 2001). Of the immigrants who arrived in Toronto in the 1990s, 79% were members of visible minorities with 11% from the People's Republic of China, 10% from India, 7% from the Philippines, 7% from Hong Kong, and substantial numbers from Sri Lanka, Pakistan, Jamaica, Iran, Poland and Guyana (Statistics Canada, 2003). According to the Canadian 1996 Census, 11% of the Canadian population belonged to a visible minority but only 7% of all Canadian small and medium sized enterprises (SMEs), as of 2000, were owned by visible minorities (Government of Canada, 2002). This would indicate that ethnic minorities are under-represented amongst SME owners. It is thus important that we examine questions about ethnic minority groups and business ownership.

Liao and Welsch (2005) propose that social capital is vital for venture creation and growth, thus the rationale for studying social capital, and in particular, the difference in ethnic community involvement across a range of ethnic and religious groups. Does involvement in an ethnic community confer a social capital advantage that enhances the business success of ethnic entrepreneurs? Does the level of ethnic community involvement differ across ethnic groups? These two research questions, which are important in terms of ethnic entrepreneurship, are addressed in this paper. The findings of this research have relevance for theory, policy and practice.

## **BACKGROUND**

### **Social capital advantage and disadvantage**

This paper concerns social capital advantage (or disadvantage), the *Zeitgeist* inherent in social capital theory (Adler & Kwon, 2002). There is considerable evidence in the literature supporting the benefits derived from belonging to a particular ethnic group and the use of the associated networks, which greatly enhance the start-up and continuing business success of an ethnic business (for example, Aldrich & Zimmer, 1986; Bonacich, Light & Wong, 1977; Boubakri, 1990; Deakins, Majmudar & Paddison, 1997; Dhaliwal, 1998; Dyer & Ross, 2000; Greene & Chaganti, 2004; Iyer & Shapiro, 1999; Light, 1984, 2004; Peterson & Roquebert, 1993; Ram, 1994; Sequeira & Rasheed, 2004; Teixeira, 1998; Waldinger, 1988). The use of co-ethnic employees, co-ethnic markets, co-ethnic suppliers, community sources of capital, advice and information, membership in ethnic community organizations and the associated relationships based on trust (Liao & Welsch, 2005), represent some of the advantages of ethnic community involvement.

There is also the "destructive" side to high involvement in an ethnic community (Woolcock, 1998, 186). Co-ethnic labor can be viewed as training would-be competitors (Lee, 1999), while catering to co-ethnic markets can increase the likelihood of business failure (Bates 1994a,b; Phizacklea & Ram, 1996; Shin & Han 1990; Torres, 1988; Walton-Roberts & Hiebert, 1997). Market saturation (Lee, 1999) and fierce competition amongst ethnic entrepreneurs chasing the same market (Iyer & Shapiro, 1999; Lee, 1999; Marger, 1990; Ram, Abbas, Sanghera & Hillin, 2000; Razin & Light, 1998), are disadvantages of high ethnic community involvement, often cited in the literature.

### **Differences according to ethnic group**

Woolcock (1998) argues that the degree of community involvement varies according to ethnic group. Also, the extent of societal prejudice and discrimination regarding rewards and opportunities leads to variation in the level of community involvement (Portes, 1998; Portes & Sensenbrenner, 1993) Social, economic, cultural, and political aspects are part of this embeddedness (Granovetter, 1985; Li, 1997), according to Woolcock, (1998). Research to date reports some different according to ethnic group. Bates (1994) reports that Asian Indian business owners rely less on co-ethnic employees and customers but Vietnamese owners rely more on their co-ethnic group. Birley and Ghaie (1992), regarding Asians (Hindu, Sikh, Muslim) in Northern Ireland, found they were closely involved in their ethnic community. In sum, high-density networks, considered an integral part of business success, are often reported in many

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studies, across most ethnic groups (Menzie, Brenner & Filion &, 2003). On balance, fewer studies report more parsimonious use of ethnically derived social capital, and low-density networks (e.g. Boyd, 1990, Pessar, 1995). Refugees who become entrepreneurs have been found to report smaller networks, indicative of lack of opportunities and social network (Gold, 1988, 1992).

*Surprisingly, given the importance of the research to date, there is a lack of research in the entrepreneurship literature about ethnic entrepreneurs. We do not know if there is a difference in how various ethnic groups create, operate and grow a business as only the most common ethnic minority groups have been studied (e.g. Chinese, Korean). Catchment terms, like “Asians”, have been utilized in previous research and this has led to course grained, as opposed to fine grained, generalizations (Deakins et al., 1997; Dhaliwal, 1998; Ram, Abbas, Sanghera, & Hillin, 2000; Werbner, 1999).*

### **Measuring the level of ethnic community involvement**

Chaganti and Greene (2002) posed a new way of examining immigrant, visible minority and ethnic entrepreneurs, according to their level of ethnic community involvement (ECI). Their index measured ECI according to personal characteristics and they looked at two groups, namely, those with high, and alternatively low involvement. The rationale for their study was that ethnicity might not be a factor in social capital, if a person was less involved with their ethnic group, but might be a vital factor if an entrepreneur was highly involved in their ethnic community. Regarding human capital variables, Chaganti and Greene (2002) found statistically significant differences for some personal resources, for example, highly involved entrepreneurs had fewer years of experience, less formal education, were of a younger age, and had more years of non US working experience. For business characteristics, entrepreneurs with higher ECI, had newer firms, most commonly in the service industry, were more likely to be sole proprietors, and surprisingly, had a higher return on sales. The lower ECI entrepreneurs, had larger businesses when measured by number of employees. Entrepreneurs with high and low ECI had the same degree of personal satisfaction, similar cultural values, business goals strategies, and goal satisfaction. Although these results are interesting, Chaganti and Greene’s study, had the limitation of small sample size (<100 participants). However, their unique and creative approach has provided a framework for others to build upon.

In this study, we continue our exploration of the IEI by building on our earlier work in which we developed an IEI and tested it to predict personal and business variables across a large number of ethnic minority entrepreneurs. However, at this time, we will utilize the IEI to examine the level of ethnic community involvement for each of the five ethnic groups and to make a comparison across these groups. This is an exploratory study as previous literature provides little insight into this area of social capital, and thus we do not have sufficient information on which to hypothesize regarding our results. The remainder of this paper deals with the methodology utilized, the results of our analysis and concludes with a discussion of findings.

## **METHODOLOGY**

To measure the level of ethnic involvement, we developed the Index of Ethnic Involvement (IEI) which is described in Menzie, Filion, Brenner and Elgie (2007). The items included in the IEI are shown in Figure 1. A satisfactory Cronbach’s alpha coefficient of .69 was obtained for the IEI and the variables had a range from 0 to 7, indicating the level of EI (ethnic

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involvement) The IEI has an approximately normal distribution. The sample mean was 3.29, the median 3.00 and the standard deviation 1.92. T-tests and ANOVA were utilized in the development and early testing of the IEI.

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Insert Figure 1 about here

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### **The Sample**

Initial testing of the IEI utilized a study of human, social and financial capital of five ethnic groups (Chinese, Italian, Jewish, Sikh, Vietnamese) from the three major Canadian cities, Montreal, Toronto and Vancouver. Approximately 150 (50 in each location) face to face interviews were conducted with entrepreneurs in each of the five ethnic groups, for a total of 718 interviews. We used a convenience sample of lead entrepreneur owner/managers based on a snowball technique, starting with referrals from ethnic business organizations and the personal contacts of the researchers and interviewers. Interviews were conducted by graduate students who were carefully selected and well trained by the principal researchers, and belonged to the same ethnic group being studied. Interviews included closed, semi and open-ended questions. Interviews took about two hours to complete. Although it was a convenience sample, we attempted to identify profitable businesses and business owners who would represent their ethnic group well in terms of business success. There were no home-based businesses surveyed. We used the same sample for this study.

### **Procedures and Analysis**

In this study we report comparisons on all five groups simultaneously in the first part of the results, while the second part of the results will consist of ‘snapshot’ descriptions of each group. Groups will be described and compared on demographic and personal variables, on variables pertaining to ethnic identity including the IEI and its subcomponents, and on business-related variables including business success. Statistical methods employed were not elaborate, since the emphasis of the current paper is to describe the characteristics of the respondents by group, rather than to model a particular theory. The chi-square test of independence was used to compare the groups on categorical variables, the Kruskal-Wallis test on ordinal or poorly distributed continuous variables, and ANOVA on continuous variables. Only bivariate relationships were explored. No follow-up testing was done with the chi-square or K-W tests; however, post-hoc tests from the ANOVA’s are reported in the group portraits. Exact numbers of cases are not given for each test. However, it is noted in the table footnotes if any group had 5% or more missing data.

## **RESULTS**

### **PART 1**

In this first section the groups will be compared on demographic and personal characteristics, ethnic involvement, and business-related variables in turn.

#### **Demographic and Personal Variables**

The variables compared were as follows: gender, education, immigrant status, age, and duration of employment prior to and following arrival in Canada, where relevant. Table 1 shows that there are highly significant differences among the groups on percentage male, percentage with college education or higher and percentage born outside Canada. With regard to gender, the highest percentage male was among Indian/Sikh respondents and the lowest for Chinese and

Vietnamese with overall, about three-quarters of respondents being male. The Chinese, Indian and Jewish respondents had relatively high education levels; with about two-thirds of the entire sample having college education or higher. The Chinese and Vietnamese had extremely high percentages born outside Canada, compared with less than half of the Jewish respondents, the overall percentage at 78%. Far more of the Jewish respondents came from a business-owning family than any other group, with the overall percentage at about one-quarter.

Results of significant oneway ANOVA's on age, years working in Canada and years working prior to arrival in Canada, are shown in Table 2 below. The mean age of all groups was in the 40's; however the Vietnamese were the youngest on average while the Jewish respondents were the oldest. Considerable variation is evident in years working in Canada prior to entrepreneurial startup, with approximately 11 years for Italians to somewhat less than 5 years for Chinese respondents, the mean for all respondents being 7.5. Years of experience outside Canada was highest for Chinese respondents and relatively low for Italian and Vietnamese respondents, the mean overall being approximately 4 years. The extent of missing data for this variable is probably related to some respondents having been born in Canada.

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Insert Tables 1 and 2 about here

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### **Ethnic Involvement**

Scores on the Index of Personal and Business Ethnic Involvement range from 0 to 7. Over the entire sample, the mean is 3.33 with a standard deviation of 1.92. An ANOVA shows that the differences among the ethnic groups on the IEI are highly significant ( $F(4,655)=86.71$ ,  $p<.001$ ). Examining Table 3, we see that the mean for the Chinese respondents is highest, and the Jewish respondents lowest. Because of the centrality of the ethnic involvement construct to the current paper, each component of the index will also be examined and reported on in Table 4, despite the redundancy. Variables which are often considered indices of ethnic identity, but which due to results of factor and internal consistency analyses were not included in the Index, are reported in Table 5.

Table 4 shows that there are highly significant differences by ethnic group on all seven dichotomous variables which, summed, form the IEI. For most variables, the Chinese respondent group has the highest percentage endorsement and the Jewish the lowest. All the groups with the exception of the Jewish group have high levels of self-identification. Vietnamese respondents reported approximately equal usage of the language of ethnicity as Chinese respondents. In terms of percentage ethnic employees (not including family) the Vietnamese respondent group had the lowest endorsement.

In Table 5 we see great variability in percentage of respondents living in a neighbourhood predominantly of their own ethnicity, from a high of 60% for Italians to 13% for Vietnamese, with an overall endorsement of 39%. Relatively few Chinese or Vietnamese belong to an ethnic social club, compared to the other three groups. However, overall only about 20% of respondents belong to such a club. Not many overall belong to business or professional clubs (11% and 6% respectively), but Chinese respondents are more likely to belong to both and Jewish respondents less likely. Chinese respondents are most likely to make purchases from the country of origin at about 20% and Vietnamese least likely at 3%.

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Insert Tables 3, 4 and 5 about here

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### **Business Characteristics**

Table 6 pertains to nature of the businesses owned by ethnic entrepreneurs. Overall about 75% of the businesses were created by the respondents, rather than purchased or inherited. Vietnamese respondents were least likely (63%) to have created their business. Just less than half of respondents' businesses are partnerships, with Italians being considerably more likely (71%) to be partnerships compared to other groups. Only 59% of Vietnamese report that their business is profitable, with an overall percentage of 73%. Overall 63% of respondents report that they feel that Canada is a good place to be an entrepreneur. Chinese respondents were far less favourable than the others, at 19%.

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Insert Table 6 about here

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As shown in Table 7 most of the businesses were in the service sector (56%), followed by retail (36%) and relatively few (8%) in manufacturing. Vietnamese respondents were somewhat more likely than others to be in service and less likely to be in retail. Table 8 shows the percentages of respondents who report sales in several categories by ethnic group. Overall 35% of respondents were in the lowest sales category and 11% in the highest. Vietnamese and Chinese respondents were over-represented in the low category and Jewish under-represented. The Italian and Jewish respondents were most likely to be in the highest sales category.

Table 9 shows that the median number of employees in the enterprises is small, about 3. Results of significance testing are inconsistent, probably due to the very large variability within responses from the Italian and Jewish groups. While the average business age was 11 years, Chinese and Vietnamese had younger and Italian and Jewish respondents had older businesses.

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Insert Tables 7, 8 and 9 about here

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The tables and text above have described the results on a variable-by-variable basis. We have seen that there are highly significant differences on almost every variable. The second section of the results will be presented on a group-by-group basis so that the nature of entrepreneurs in the five groups will be clarified.

## **PART 2**

In this section 'snapshots' of the results pertaining to the five groups will be presented. Not every variable may be described for every group, but those which differentiate the group will be emphasized. For exact statistics, please see the tables above.

### **Chinese Entrepreneurs**

Chinese entrepreneurs are almost entirely immigrant and well-educated. They are not as predominantly male as with other groups and are very close to respondent average in age. About one fifth of them came from families who owned businesses, a smaller proportion than some groups. Compared to other groups, Chinese respondents on average had worked significantly fewer years in Canada and more years outside Canada prior to business ownership, significantly more than Indian/Sikh, Italian and Vietnamese respondents.

Chinese respondents were higher on the IEI than any other group and scored high on all seven of the components. Despite this evidence of high ethnic involvement they are about as likely as others to live in an ethnic neighbourhood and less likely than others to belong to a social club. Although membership in business-oriented clubs was low overall, Chinese respondents were somewhat more likely than others to belong. They were more likely than others to purchase from their country of origin for their businesses. They were about as likely as other respondents to have started their business from scratch and to be in a partnership. A surprisingly low percentage of Chinese respondents report that they feel Canada is a good country for entrepreneurs. A relatively high percentage of Chinese entrepreneurs report low sales and relatively low percentage of high sales revenue. The businesses tend to be young and to have few employees.

### **Indian/Sikh Entrepreneurs**

Indian/Sikh respondents were more likely than any other group to be male. They were well-educated and close to the average in percentage who were immigrants. About one-fifth come from families who owned businesses, a lower percentage than some groups. Indian/Sikh respondents had fewer years of work experience abroad than other groups, especially Chinese and Jewish, and moderate years of work experience in Canada, less than Italians.

Indian/Sikh respondents scored close to the average on the IEI, significantly less than Chinese respondents and higher than Jewish. They tended to have moderate endorsement of the seven components of the IEI, with the exception of ethnic self-identification. Indian/Sikh were close to the overall percentage living in an ethnic neighbourhood, somewhat more likely to belong to an ethnic social club, and close to overall in proportions belonging to business clubs and making purchases in the home country. Indian/Sikhs were more likely than members of other groups to have created their business, similar to overall in percentage partnerships, definitely tended to perceive their businesses as profitable, and saw Canada as a good place for entrepreneurs. Their reported sales were close to the overall average. The businesses were small in terms of number of employees and tended to be young.

### **Italian Entrepreneurs**

Italian respondents were close to the average in terms of percentage male. A smaller proportion of them were immigrants than the overall percentage. Less than half had graduated from college, the lowest proportion of all the groups. About one-third came from families with businesses, close to the overall percentage. They were a little older than average, significantly more than Indian/Sikh and Vietnamese respondents. Italian respondents had significantly more years of work experience in Canada, compared to all the other groups. They had less work experience outside Canada, significantly less than Chinese and Jewish respondents.

Italian respondents scored close to the average on the IEI, less than Chinese respondents and more than Jewish respondents. They were moderately likely to endorse all the components



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of the IEI except for location of business in an ethnic area, which was endorsed by a relatively high percentage. Italian respondents were considerably more likely than members of other groups to live in an ethnic neighbourhood and to belong to ethnic social clubs. They were close to overall percentages on business-related club memberships and purchases from country of origin.

Italians were highly likely to have created their businesses from scratch, and highly likely to have formed a partnership. They feel Canada is good for entrepreneurs. Italians are approximately typical in reported sales. Business size was more variable than any other group, but usually, as other groups, businesses were mainly small. Business age was higher than for some other groups.

### **Jewish Entrepreneurs**

Jewish entrepreneurs were approximately equal to the overall percentage of male and well educated. They had the lowest percentage immigrants of all the groups and the highest percentage of business ownership in the family of origin by a considerable margin. They were somewhat older on average, significantly older than the Vietnamese. They had approximately the average respondents years of work prior to business ownership in Canada, significantly greater than the Chinese and less than the Italian respondents. They were fairly high on average years working outside Canada, greater than the Indian/Sikhs, Italians, and Vietnamese. Their average IEI score was lowest of all the groups, significantly less than every other group. They were lowest on all indicators which form the IEI. But, they were similar to the overall percentage of respondents living in ethnic neighborhoods. They were more likely than some groups to belong to an ethnic social club, but most unlikely to belong to a business-oriented club. They purchased from the home country about as often as other respondents.

The percentage of Jewish entrepreneurs who started their business was high at over 80%. They were somewhat more likely than the overall sample to form partnerships and they did not often purchase an existing business. The highest percentage reported profitable business, and were likely to see Canada as a good place for entrepreneurs. They were likely to report high sales, especially if the top two categories of sales revenue are combined. The median number of employees was slightly higher than other groups although there was great variability in this measure. The age of the businesses was relatively high.

### **Vietnamese Entrepreneurs**

Women were relatively well represented within our sample (31%) of Vietnamese, similar to the number of Chinese female entrepreneurs (32%). The proportion with college education or more paralleled that of the entire sample. A very high proportion was immigrant. A low proportion came from a business-owning family. They were somewhat younger than typical, significantly younger than the Italian and Jewish samples. They were approximately equal to the overall average years worked in Canada prior to business ownership, greater than the Chinese sample and less than the Italian. They were low on work experience outside Canada, significantly less than the Chinese and Jewish respondents.

The score of Vietnamese entrepreneurs on the IEI was relatively high, but less than the Chinese and greater than the Jewish respondents. They were moderate on most of the variables constituting the index with two exceptions. They were high on use of the language of ethnicity in the home and like other groups except the Jewish respondents, high on self-identification.

Vietnamese respondents were least likely by a considerable margin to live in an ethnic neighbourhood and were also relatively unlikely to belong to social clubs. They were close to the overall sample in likelihood of membership in business-oriented clubs. They were very unlikely to make purchases from the country of origin. Of all the groups the Vietnamese respondents were least likely to have started their businesses personally. They were close to the overall percentage in forming partnerships. They were less likely than overall to report that their business was profitable. They were similar to the other groups, excluding the Chinese, in likelihood that Canada was a good place to be an entrepreneur. Vietnamese respondents were somewhat less likely than others to be in retail and more likely to be in service. Their sales profile was similar to that of Chinese respondents: a relatively high proportion in the lowest category, and small proportion in the highest category. The median size of the business was close to the overall figure. Like the Chinese, Vietnamese respondents have relatively young businesses.

### **Discussion**

Findings show distinct differences according to ethnicity and level of ethnic community involvement, as measured by the IEI, and as such, this work is a contribution to theory building in this field. This research stream is at an early stage of development. At this conference, we welcome input on the far reaching implications in terms of training and educating those who intend to start a business or existing business owners who belong to ethnic minority groups. Our findings have distinct implications for policies to encourage or assist ethnic minority business owners to break into the mainstream markets and this is also an area for discussion at this conference.

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### FIGURE 1

#### Variables Utilized in the Index of Ethnic Involvement

<i>Personal Characteristics</i>	<i>Business Characteristics</i>
Language(s) spoken	Language(s) spoken at work
Personal Identification (e.g. Canadian, Chinese, Chinese-Canadian)	Location of business re co-ethnic Co-ethnic Employees Co-ethnic Suppliers Co-ethnic Customers

**TABLE 1**  
**Gender, Education and Immigrant Status by Ethnic Group**

	Chinese (n=151)	Indian/Sikh (n=136)	Italian (n=135)	Jewish (n=151)	Vietnamese (n=145)	$\chi^2$ (4)
% Male	68	87	72	77	69	$\chi^2(N=718)=$ 18.09***
% College or higher <sup>a</sup>	73	73	44	74	65	$\chi^2(N=666)=$ 34.03***
% Born outside Canada	99	84	63	44	97	$\chi^2(N=715)=$ 189.04***
% Family of origin owned a business	19	18	28	53	16	$\chi^2(N=718)=$ 70.44***

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

Note: Data from 17% of Indian/Sikh and 16% of Italian respondents are missing

**TABLE 2:**

**Mean Age and Working Experience by Ethnic Group**

		Chinese (n=151)	Indian/Sikh (n=136)	Italian (n=135)	Jewish (n=151)	Vietnamese (n=145)	<i>F</i>
Age <sup>a</sup>	<b>M</b>	44.20	42.74	46.81	47.35	41.90	F(4,683)=6.50***
	<i>SD</i>	9.46	9.45	12.35	13.91	9.70	
Years prior work in Canada	<i>M</i>	4.88	8.28	11.16	7.07	6.66	F(4,706)=16.25***
	<i>SD</i>	5.07	6.75	8.65	7.70	5.44	
Years prior work outside Canada <sup>b</sup>	<i>M</i>	8.00	2.10	1.32	5.63	1.71	F(4,583)=31.76***
	<i>SD</i>	8.00	2.10	1.32	5.63	1.71	

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

<sup>a</sup> Data from 7% of both the Chinese and Jewish groups were missing.

<sup>b</sup> Data from 13% of: Indian/Sikh, 17% of Italian 17%, and 55% of Jewish respondents were missing

**TABLE 3**

**Means on the Index of personal and business ethnic involvement (IEI)**

Ethnic Group	<i>N</i>	<i>M</i>	<i>SD</i>
Chinese (n=151)	137	4.82	1.71
Indian/Sikh (n=136)	130	3.38	1.77
Italian (n=135)	123	3.37	1.63
Jewish (n=151)	139	1.40	1.03
Vietnamese (n=145)	131	3.73	1.57

**TABLE 4**

**Percentaged Responses to Variables Which Form the IEI by Ethnic Group**

	Chinese (n=151)	Indian/Sik h (n=136)	Italian (n=135)	Jewish (n=151)	Vietnames e (n=145)	$\chi^2$ (4)
% Speaking language of ethnicity at home <sup>a</sup>	90	51	39	5	88	$\chi^2(N=717)=301.26^{***}$
%Self-identifying as member of ethnic group	89	85	84	45	86	$\chi^2(N=718)=116.38^{***}$
% Speaking language of ethnicity at work	49	13	17	0	24	$\chi^2(N=716)=121.67^{***}$
% Business location where ethnic group is dominant	65	45	59	23	47	$\chi^2(N=710)=62.25^{***}$
% Half or more Employees of ethnic group	82	66	57	32	72	$\chi^2(N=718)=90.98^{***}$
%Half or more Sales to members of ethnic group	64	46	45	22	37	$\chi^2(N=718)=58.74^{***}$
%with 40% or more purchases from ethnic group in Can. <sup>b</sup>	42	31	29	9	18	$\chi^2(N=668)=46.00^{***}$

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

<sup>a</sup> Data from 6% of Jewish respondents were missing information on language

<sup>b</sup> Data missing for 9% Chinese, 7% Italian, 9% Jewish, 8% Vietnamese

**TABLE 5**  
**Percentaged Responses to Other Ethnic Variables by Group**

	Chinese (n=151)	Indian/Sikh (n=136)	Italian (n=135)	Jewish (n=151)	Vietnamese (n=145)	$\chi^2$ (4)
% Residing in area where ethnic group is predominant	40	41	60	42	13	$\chi^2(N=714)=64.14***$
% Belonging to an ethnic social club	12	24	29	25	15	$\chi^2(N=707)=17.50**$
% Belonging to an ethnic business club	19	12	9	4	10	$\chi^2(N=707)=18.24***$
% Belonging to an ethnic professional or trade club	9	4	9	1	8	$\chi^2(N=707)=14.21**$
% Making 40% or more of purchases in country of origin <sup>a</sup>	22	12	13	16	3	$\chi^2(N=674)=22.54***$

\*\*  $p < .01$

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

<sup>a</sup> 9% of Chinese, 7% of Italian, 6% of Jewish & 6% of Vietnamese were missing this variable

**TABLE 6**  
**Percentage Indicating Selected Business Characteristics by Ethnic Group**

	Chinese (n=151)	Indian/Sikh (n=136)	Italian (n=135)	Jewish (n=151)	Vietnamese (n=145)	$\chi^2$
Mode of acquisition by creation not inheritance or purchase	71	82	76	81	63	$\chi^2(4, N=710)=17.50**$
Partnership rather than sole ownership <sup>a</sup>	48	42	71	52	50	$\chi^2(4, N=564)=132.22***$
Business is Profitable <sup>b</sup>	n/a	76	n/a	83	59	$\chi^2(2, N=423)=22.36***$
Respondent feels Canada is good for entrepreneurs	19	71	77	73	74	$\chi^2(4, N=702)=148.45***$

\*\*  $p < .01$

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

<sup>a</sup> 68% of Chinese and 35% of Italian respondents were missing information on this variable

<sup>b</sup> This question was not asked of Chinese or Italian respondents.



**TABLE 7****Percentaged Responses by Ethnic Group concerning Business Sector of Enterprise**

	Chinese (n=151)	Indian/Sikh (n=136)	Italian (n=135)	Jewish (n=151)	Vietnamese (n=145)
Service	56	56	45	56	69
Manufacturing	5	6	11	12	4
Retail	39	39	44	32	27

$$\chi^2(8, N=713) = 24.86^{**}$$

\*\*  $p < .01$

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

**TABLE 8****Responses Concerning Annual Turnover (Sales) Percentaged by Ethnic Group**

Turnover <sup>a</sup>	Chinese (n=151)	Indian/Sikh (n=136)	Italian (n=135)	Jewish (n=151)	Vietnamese (n=145)
Up to \$100,000	47	32	28	22	43
100,001 to 250,000	19	17	19	13	16
250,001 to 500,000	17	18	15	16	16
500,001 to 2,500,000	14	23	18	32	20
Over 2,500,000	4	10	20	17	5

$$\chi^2(4, N=658) = 43.83^{***} \text{ (Kruskal-Wallis test)}$$

\*\*  $p < .01$

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

<sup>a</sup> 8% of Chinese, 21% of Italian and 7% of Jewish respondents were missing information on this variable.

TABLE 9

## Number of Employees and Business Age by Ethnic Group

		Chinese (n=151)	Indian/Sikh (n=136)	Italian (n=135)	Jewish (n=151)	Vietnamese (n=145)	
Number of FTE Employees <sup>a</sup>	<b>M</b>	5.36	6.96	57.92	29.82	4.02	$H(4, N=702)=15.15^{**}$
	<i>SD</i>	9.43	13.88	525.92	122.81	5.32	
	<i>Mdn</i>	2.00	3.50	3.00	4.00	2.75	
Age of Business	<i>M</i>	7.55	10.14	15.15	15.74	8.55	$F(4, 701)=21.41^{***}$
	<i>SD</i>	6.80	7.55	11.70	13.99	6.47	

\*\*  $p < .01$

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

<sup>a</sup> 5% of Chinese respondents were missing on this variable; because of outliers (relatively large enterprises) the Kruskal-Wallis test was used to assess the significance of this variable.

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## OUTSTANDING PAPER FIRST RUNNER-UP

### AN EXPLORATORY STUDY OF BUSINESS STUDENTS' DISCRETIONARY SOCIAL RESPONSIBILITY ORIENTATION

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#### ABSTRACT

As future business leaders, students' values and belief system will influence the types of decisions they make regarding their organization's role in society. This study examined business students' Corporate Social Responsibility Orientation (CSRO) and their attitudes towards the discretionary component of CSR. The majority of business students have a high CSRO and also believe in the discretionary social responsibility component of CSR. Only 13% of the respondents said they did not believe companies have a responsibility that goes beyond earning a profit for their shareholders. The study found no significant differences in students' CSRO by gender, age, marital status and graduating class.

#### INTRODUCTION

There is a growing interest in the subject of student attitudes and orientation towards social responsibility (Baglione & Zimmerer, 2003; Ibrahim & Angelidis, 1993; Moyes & Cortes, 2004). Will today's business students show greater or less concern for corporate social responsibility (CSR) when they assume leadership roles after college? The underline assumption being that students' corporate social responsibility orientation (CSRO) will carry on into their professional lives and influence their decisions.

The basic premise of this paper is that today's business students are tomorrow's business leaders. As future business leaders, these students' values and belief system will influence the types of decisions they make regarding their organization's role in society.

A discussion on the evolving definition of social responsibility is beyond the scope of this paper. Carroll's (1977, 1979) view that social responsibility is about a business's economic, legal, ethical and discretionary obligations to society is the accepted model for this paper. Carroll's four components embody various views of earlier researchers who attempted a definition of the concept (Backman, 1975; Davis, 1960; Eells & Walton, 1961; Friedman, 1962; Hay, Gray, & Gates, 1976; McGuire, 1963).

The first component, economic responsibility, implores the business to maximize profits for shareholders; legal responsibility requires the business to operate within the confines of the law; ethical responsibility requires business leaders to act with fairness, equity and impartiality in their decision making, and finally, discretionary responsibilities are about a business' desire to make social or philanthropic contributions not required by economics, law or ethics. Discretionary responsibilities rely on the individual leader's judgment and choices. Though voluntary in nature, societal expectations do exist for business to assume social roles not mandated by law and not generally expected from an ethical stand point.

## Research Questions

This study is designed to investigate not just the students' overall social responsibility orientation, but more specifically, their attitude towards the discretionary component of corporate social responsibility. The following questions are addressed:

1. Do business students generally accept or reject the notion that discretionary social responsibility is an obligation of corporations?
2. Are there differences in students' discretionary social responsibility orientation as a result of their gender, age, marital status and year of college graduation?
3. In terms of business students' value system, are they more or less inclined to value helping the needy in society?
4. Does a student's attitude towards helping others influence their view of discretionary corporate social responsibility?
5. Does exposure to a national tragedy such as Hurricane Katrina or the VA Tech massacres influence students' discretionary social responsibility orientation?

Not only is there a limited body of scholarly work on the social responsibility orientation of business students (Arlow, 1991), there is even less on students' discretionary social responsibility orientation. As part of the introduction, a brief background on the paper idea itself is presented.

## Background

The idea behind this paper was born out of a Small Business Institute (SBI) project. In on of the author's school, the SBI program shifted its emphasis from student consulting to student entrepreneurship. Students are challenged to come up with one entrepreneurial idea that is marketable to the student body and surrounding community. The students then develop a plan for implementing their idea during the course of the semester. The funding has to come from the students themselves. One key principle agreed upon by all (students and faculty) is that if the venture succeeds in recovering the invested capital and earns a profit, each student would be refunded their share of the contributed capital (paid-in capital) and the proceeds or profits will be donated to the Red Cross or any other non-profit organization. This is an incentive for the students because it is equivalent to getting a full refund on your textbook(s) at the end of the semester.

In the Fall semester of 2005, the first SBI entrepreneurship class was launched. As the semester came to a close, the student venture had generated enough revenues for the students to recover their investment of \$1,900.00 and earn a profit of \$2,200.00. Hurricane Katrina and its aftermath was still the story of the day. Most people were very concerned of the on-going suffering and hardship of the victims. It was at this point that a student presented the class with a proposal; "how about we donate all the money to the Red Cross to help Katrina victims." Sensing that some of the students were uncomfortable debating the issue, the professor decided to conduct an anonymous survey to see where each student stood on the issue. It occurred to the professor that this was really an issue of one's discretionary social responsibility orientation. The students were not required by economics, law or ethics to give away all that they had earned in the venture. However, some had the desire to do it and others did not. This was equivalent to a corporation's management team debating not just whether to give but how much to give to social causes in the society.

The question is posed, are educators training and graduating future business leaders who are inclined to exhibit greater or less concern for discretionary social responsibility. The same

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data has been collected from every graduating class of business majors for the past three years. Like 2005, this year the data was collected against the backdrop of a tragedy, the VA Tech shootings.

## LITERATURE REVIEW

Researchers and practitioners have debated for many years the concept of corporate social responsibility (CSR). The question at the heart of the discussion is whether corporations have a responsibility that goes beyond satisfying the economic needs of shareholders. Therefore, much of the literature has concentrated on efforts to develop various conceptual models for analyzing the relationship between a business and its broader environment. There is much evidence to support the proposition that corporate social responsibility is associated with increased financial performance (Bakker, Groenewegen & Den Hond, 2005; Pelozo, 2006; Preston & O'Bannon, 1997; Vogel, 2005). Another study found that CSR influences consumer behavior, making them more loyal to the businesses that they perceived to be socially responsible (Schuler & Cording, 2006).

Milton Friedman argued that in a free society like the United States, requiring that corporate officials engage in social activities that went beyond making as much money for their stockholder as possible was fundamentally subversive (Carroll, 1977). McGuire (1963) acknowledged the primacy of economic concerns, but also embraced a broader view of the firm's social responsibilities. McGuire maintained that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond economic and legal obligations. Carroll (1979) described these obligations as ethical and discretionary responsibilities. According to Carroll, for a definition of social responsibility to fully address the entire range of obligations business has to society, it must embody the economic, legal, ethical, and discretionary categories of business performance.

The focus of this paper is on the discretionary component of corporate social responsibility. Discretionary responsibilities are not legal obligations, but nevertheless are expected of businesses. Discretionary responsibilities are left to individual judgment and choice; they are purely voluntary, yet societal expectations do exist for businesses to assume social roles that go beyond satisfying their economic and legal responsibilities. In response, many businesses have begun to pay attention to the social impact of their economic activities. Many corporations have now adopted codes of conduct and reached out to various groups in society by engaging in purely discretionary social endeavors (White & Montgomery, 1980; Lewin, 1983). This in turn has led to increased interest among researchers to explore the importance of corporate social responsibility and its impact upon business and society (Crane, 2004; Curren & Harich, 1996; Merritt, 2002; Nonis & Swift, 2001).

Recent events involving unethical and even illegal conduct among business executives have renewed everyone's interest in the subject of social responsibility and ethics. Many have wondered if corporate leaders are simply selfish, amoral persons who, due to their huge bank accounts and power, could care less of their responsibilities to stakeholders (Baglione & Zimmerer, 2003). In the academic community, business schools have attempted to address this negative perception by incorporating more social and ethical issues into the curriculum (Davis & Welton, 1991; Greenman & Sherman, 1999; Trevino, 1992). The primary objective is to increase students' awareness of the importance of ethics and corporate social responsibility in business.

In recent years, researchers are beginning to examine the impact that "social and ethical issues education" has had on business students' social responsibility orientation (Baglione &

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Zimmerer, 2003; Ibrahim & Angelidis, 1993; Taylor, 2004). For example, Ibrahim & Angelidis (1993) found that business students, compared to practicing executives, exhibited greater concern about ethical and discretionary components of corporate social responsibility. Baglione and Zimmerer (2003) examined whether business students prescribe to specific ethical philosophies and how those ethical philosophies affect their view of general morality, business ethics, and environmental concerns. They found that graduate and undergraduate business students prescribe to different philosophies and ideas about business practices. Missing in these studies is an examination of the influencing factors that cause some students to have a greater sense of discretionary social responsibility than others. Does age, gender, religion, marital status and one's belief system on helping others influence their overall perception of discretionary social responsibility? Would exposure to or awareness of a tragic event such as Hurricane Katrina or the Virginia Tech shootings change one's view of the concept? This paper attempts to address these issues.

## METHODOLOGY

### Design

Base on the literature review and the objectives of the study, a questionnaire was designed to measure the variables of interest. The survey included gender, age, marital status, religiousness, exposure to a crisis, personal belief system on CSR and one's views on helping others. To gain an understanding of business students' perceptions on discretionary social responsibility, respondents were asked to select from three options what they would prefer the group did with the invested capital and resulting profit generated through the venture. Option one was to stick to the original plan of only giving away the profits to the Red Cross. Option two was to change the original plan and give everything (contributed capital plus profits) to the Red Cross in light of the tragedy at the time. Option three was to change the original plan and refund everything to the students. Previous studies have examined the influence of academic major and gender (Landry, Moyes & Cortes, 2004) and religiousness (Angelidis & Ibrahim, 2004) on one's social responsibility orientation. The current study expanded on these variables, adding to the list other relevant variables.

To minimize social desirability of responses, the survey was administered in three separate parts. The first part presented only the demographic questions. The second part presented three questions that addressed the respondent's social responsibility orientation. The third part presented one case question intended to ascertain the respondent's discretionary social responsibility orientation. All questions were in a structured, categorical format and respondents were asked to select one category on each question.

### Sample

The students in this study were undergraduate business majors enrolled in the senior seminar course; which is the capstone course for all graduating business seniors. All the students have had courses that exposed them to the concept CSR. The objective of the department is to heighten student awareness of CSR's significance and its impact on business and society in general.

Data was collected over a three-year period from each graduating class. All surveys were administered in class. Each questionnaire was numbered, and students were informed that the information would be kept confidential.

## Statistics

All data collected was nominal. Thus, cross-tabs Chi-Square testing was used to answer the five research questions.

## RESULTS

**Question 1.** The majority of business students (87%) believe in the discretionary social responsibility component of CSR. Only 13% of the respondents said they did not believe companies have a responsibility that goes beyond earning a profit for their shareholders.

**Question 2.** There is no difference in students' discretionary social responsibility orientation by gender (44 males and 31 females,  $X^2 = 2.17$ ,  $p = .140$ ), age (73 age 20-25, 10 26-30, 2 31-40, 1 51-60;  $X^2 = .920$ ,  $p = .821$ ), marital status (11 married and 75 not married,  $X^2 = .329$ ,  $p = .556$ ), and year of graduation from college (19 2005, 21 2006, 46 2007;  $X^2 = .977$ ,  $p = .614$ ).

**Question 3.** There were 30 students (35%) responding that they believe in helping others in need always; 41 (59%) believe in helping others in need some of the time and only 5 (6%) believe in letting people help themselves because it promotes independence. Therefore, a majority of students (94%) believe that helping others in need is a good thing.

**Question 4.** There is no difference in students' discretionary social responsibility orientation by willingness to help others in need, 30 always, 41 sometimes and 5 let people help themselves because it encourages independence;  $X^2 = .482$ ,  $p = .786$ .

**Question 5.** Exposure to a national tragedy such as Hurricane Katrina or the Virginia Tech massacres does not influence students' discretionary social responsibility orientation (34 have been in a major disaster or know someone who has, and 52 did not;  $X^2 2.46$ ,  $p = .121$ ).

## DISCUSSION

In this study, the majority of business students believe in the discretionary social responsibility component of CSR. Only 13% of the respondents said they did not believe companies have a responsibility that goes beyond earning a profit for their shareholders. This result is consistent with previous research. Ibrahime and Angelidis (1993) found that business students are more ethically and philanthropically oriented than top business executives. Some may argue that this is a predictable outcome given that business students are removed from the pressures of the market places and that overtime, given the opportunity to function in the "real world," students' attitude towards discretionary social responsibility may change (Sonnenfeld, 1981). However, others would argue that an educational curriculum that emphasizes the obligation of business to act for the social good sensitizes students to such issues (Purcell, 1977, Vogel, 1987). As students enter the workforce and ascend the corporate ladder to leadership positions, they may follow-through on their core beliefs and direct their organizations towards more socially responsible actions.

The implications of this result for business educators is that this generation of students is more receptive to the concept of CSR and more should be done to incorporate CSR in the business school curriculum. It is imperative that educators continue to emphasize the value and impact of discretionary social responsibility to society. It is quite possible that today's students will exercise more discretionary actions to address society's problems/needs than the present

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generation of leaders. It is also possible for the reverse to happen. Working in an organization where the culture is incompatible with their values, these students may be socialized to align with the organization's values.

A large majority of students believe that helping others in need is a good thing. This may explain why there is no difference in students' discretionary social responsibility orientation and willingness to help others. It will make intuitive sense to think that one's personal belief in helping others in need will influence how they perceive corporations' discretionary social responsibility orientation.

A surprising finding was that exposure to a national tragedy, such as Hurricane Katrina or the Virginia Tech massacres did not influence students' discretionary social responsibility orientation. It was thought that this would have an effect because tragic events tend to cause people to want to help. Corporations increase their giving to help social causes when national tragedies happen. However, this finding may be re-enforcing the assumption that students' discretionary social responsibility orientation is an inherent, deep-down core value that does not change just because of a major tragedy. Also, we already found that students overwhelmingly believe in the concept and thus a tragedy may only strengthen their belief rather than weaken it.

This study found no differences in students' discretionary social responsibility orientation by gender, age, marital status and graduating class. Other studies, similar to this one have found the opposite. In their study examining the ethical philosophies among graduate and undergraduate business students, Baglione and Zimmerer (2003), found that, in terms of gender and perceived moral intensity, women were more ethically oriented than men. Also, on the basis of age and student classification, older students and graduate students demonstrated a higher degree of ethical and moral sophistication than younger students and under-graduates. This may imply that age and moral intensity are positively related. Baglione and Zimmerer's (2003) findings have been supported by other studies (Borkowski & Ugras, 1992; Deshpande, Joseph & Maximox, 2000; Moyes & Cortes, 2004).

Though focused on the same subjects (business students), these findings dealt with students' personal ethical/moral beliefs, not their perceptions of corporate ethical/moral behavior; which is the focus of this paper. However one could argue that business students who show higher degrees of moral/ethical sophistication (these studies found women to be higher in CSR) would also support greater CSR and measure higher on discretionary social responsibility orientation. This is an area deserving of further investigation.

## CONCLUSIONS

In the wake of the corporate scandals that put some CEOs in jail and others paid hefty fines, many people wondered if corporate leaders today care much about anything besides the bottom line and their bank accounts. In the aftermath of Hurricane Katrina, some in the media lamented that individual contributions to help victims in some cases were larger and more generous than corporate contributions. There seems to be a general sentiment that corporations need to be doing more in terms of their discretionary social responsibility obligations.

The findings of this study are valuable for business educators. Exposing business students to the concept of CSR increases their understanding of the responsibility of business to its larger social system. As business students enter the corporate world and become managers, they will provide the leadership necessary for transforming their organizations into socially responsible agents of positive change.



This is an exploratory study with certain limitations that must be acknowledged. Specifically, the sample size and representativeness of the data calls for prudent interpretation of the results. More needs to be done with larger samples in a longitudinal study that evaluates any variance in business students' CSR orientation over time; especially when they transition from students to full-time corporate employees and into the management ranks.

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## OUTSTANDING PAPER RUNNER-UP

### CREATING INNOVATIVE CUSTOMER INNOVATIVE CUSTOMER INTERCEPT THROUGH DIRECT MAIL CD/ROM CAMPAIGN FOR AN ENTREPRENEURIAL SMALL FIRM

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#### Abstract

Customer Relationship Management (CRM) are buzz words that question how the firm fosters a '360-degree review' of the customer lifecycle? Thus, the goal of this study is to provide a synopsis of an innovative CRM concept, using a CD/ROM direct mail campaign to assist a small business develop a process to effectively communicate with its customer. A practitioner-oriented model is developed that depicts the CRM process of using multiple communication channels, building loyalty, and customer retention tactics to foster the customer experience.

#### Executive Summary

Customer Relationship Management (CRM) are buzz words that question how the firm fosters a '360-degree review' of the customer lifecycle? After reviewing the literature on CRM, one may ask what is really *new* about CRM marketing tactics. Thus, the goal of this study is to provide a synopsis of innovative CRM concepts that can assist a small entrepreneurial firm, Pertzsch Design, develop a process to effectively communicate with its customer through a direct-to-client CD/ROM mail campaign.

Currently, the entrepreneur faces a major marketing problem, how to effectively 'mine' new business opportunities through innovative customer relationship management? Pertzsch Design has grown to the point where the owner has hired assistants to perform the 'downstream' tasks of computer-aided design and basic design. The majority of the firm's business comes from 'word-of-mouth' through previous clients and working as a sub-contractor for a small number of architect firms. Thus, the owner needs to refocus her talent to soliciting future work through providing an exceptional customer experience to these clients.

A pragmatic model of the CRM process for this small business in the service sector is developed for the firm. Overall, in order to implement the CRM tactics, the firm must develop multiple communication channels, build customer loyalty, assess customer retention, and change service offerings to implement this proposed process. The key empirical focus of this study is to create a CD/ROM direct mail campaign similar to Volvo's recent "For Life" campaign to its dealer network. Pertzsch Design thrives on its image and portfolio of creative projects. Thus, a direct mail CD/ROM campaign design was developed and will be mailed to a customer-base of existing and prospective clients in November of 2007.

#### Selling the Invisible

A manager in the service sector must assess the art of 'selling the invisible.' To illustrate this concept, Harry Beckwith's book, *Selling the Invisible* is an invaluable resource for any manager in the service business. Huling (2004) clarifies the point by stating, "professionals' services are invisible products . . . lawyers, doctors, and accountants tend to think clients are

buying their expertise. However, most prospects for such complex services can't evaluate expertise. They can't tell if a tax return is accurate, a diagnosis is perceptive or an insurance policy appropriate—but they do know if their relationship with you is good, if their phone calls are returned, and if they feel valued. If we're selling a service, we're selling a relationship and an experience.” The current literature is replete with various concepts of Customer Relationship Management (CRM) techniques to further develop customer loyalty. Several of the articles focus on the information technology (IT) tools, such as *NetSuite* and *Business Contact Manager*. However, these software tools may not be feasible for a small business due to both the cost of an IT system and the small size of its customer base. Thus, this study will explore whether a small entrepreneurial business, such as Pertzsch Design, can develop an effective CRM strategy through an alternate tool, such as a CD-ROM direct mailing, to sustain and cultivate a better rapport with its current and prospective clients.

### **Developing a Pragmatic Model of the CRM Process**

After twelve years of experience working for various commercial architect firms, Kate Pertzsch started a company in interior design five years ago in LaCrosse, Wisconsin. Pertzsch Design ([www.pertzschdesign.com](http://www.pertzschdesign.com)) primarily focuses on commercial design projects in the states of Wisconsin and Minnesota. The entrepreneur's portfolio includes distinct projects in health care, education, salon & day spas, churches, retail and corporate offices. (A sample of completed projects can be viewed at [www.pertzschdesign.com](http://www.pertzschdesign.com)) The entrepreneur also has experience working for several years in the residential side of the design business. In fact, the work with affluent clients in this niche market has spillover effects for the commercial side of the business (and vice-versa) through word-of-mouth advertising and/or the client simply owns the business and requests work done on his/her home. Figures 1 and 2 represent two design projects that the firm completed for an orthodontist office and hair salon.

**Figure 1**  
**Orthodontist Office**



**Figure 2**  
**Hair Salon**



Currently, the firm faces a major marketing problem, how to effectively ‘mine’ new business opportunities through innovative customer relationship management? The company’s business has grown to the point where the entrepreneur has hired staff to perform the ‘downstream’ tasks of computer-aided design and basic design. The majority of the firm’s business comes from cultivating new projects from previous clients, working as a sub-contractor for a small number of architect firms in the area, and referrals from past clients and/or reputable builders in this geographic area. Thus, to grow the firm, the owner must refocus her talent to soliciting future work through providing an exceptional customer experience to these clients. Figure 3 depicts the proposed model of the CRM process for this small business in the service sector. Overall, in order to implement the CRM tactics, the firm must concentrate on developing multiple communication channels; building further customer loyalty, assessing customer retention tactics that will lead to changing service offerings to each client.

**Figure 3**  
**Process of Customer Relationship Management**

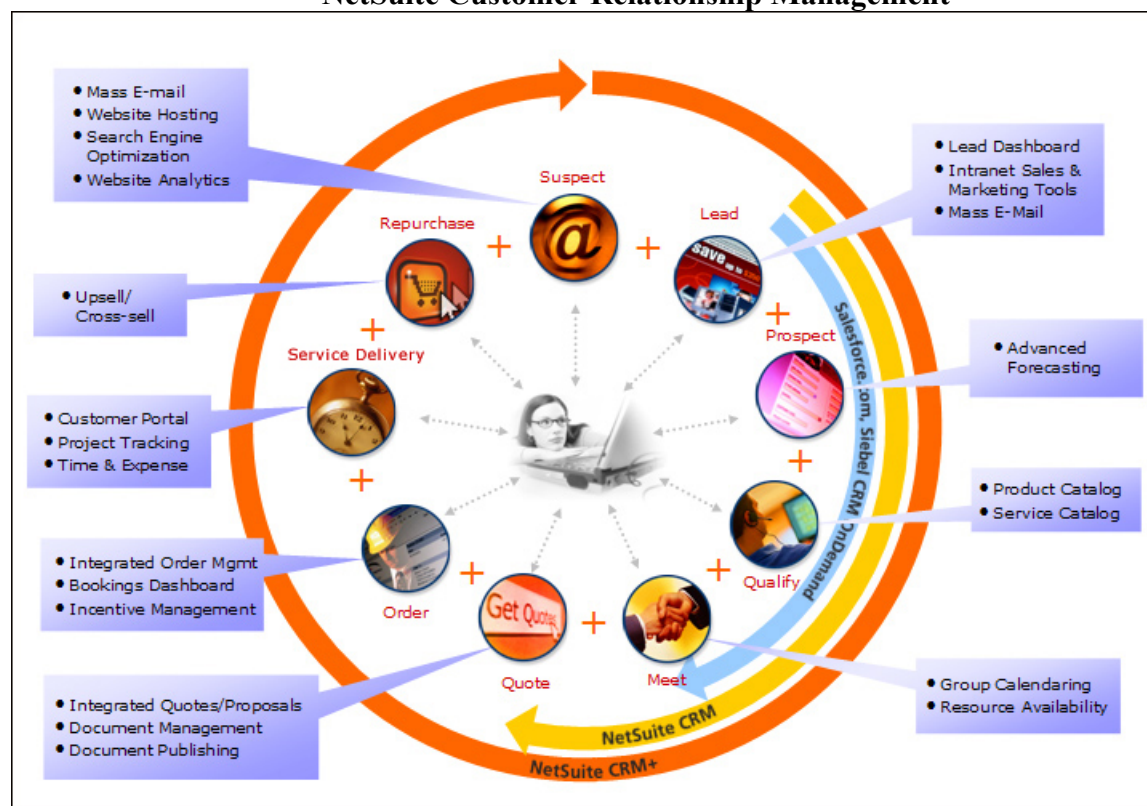


## Establishing Multiple Communication Channels

### CRM Software: NetSuite and Business Contact Manager

An initial overview of the literature on CRM reveals a plethora of different software available to manage a firm's customer through various types of communication channels or 'intercepts.' The concept of CRM is almost synonymous with information technology tools available from different vendors. Thus, a review of two leading CRM software applications, NetSuite's CRM Solutions and Microsoft's *Business Contact Manager* is given in this section. Figure 4 represents the holistic view of NetSuite's '360 degree review of the customer lifecycle.

**Figure 4**  
**NetSuite Customer Relationship Management**



Source: [www.netcrm.com](http://www.netcrm.com)

NetSuite explains its CRM strategy as its website as, "(I)t's all about the customer. Target the customer, sell to the customer, serve the customer, sell more to the customer. . . . By putting the "C" at the center of a CRM strategy—essentially, focusing on your customer—each online, in-person or phone interaction can better meet your customers' needs. . . . ([www.netcrm.com](http://www.netcrm.com)). The company states that there are seven key advantages that a firm will incur as a result of using this CRM software. These are:

- **Streamlined Processes.** Give your employees the ability to view and share complete, real-time data across all customer-facing channels.

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Improve sales knowledge and increase productivity for the entire company.

- **Increased Visibility.** Pinpoint problems, identify opportunities, and proactively address them using real-time key performance metrics and reports.
- **Greater Intelligence.** NetSuite CRM manages all customer-facing data in a single, real-time repository. Continuous data mining provides you with better customer intelligence, so that you know more and sell more.
- **Better Collaboration.** Self-service customer and partner portals keep the lines of communication open 24/7, enhancing both business-to-consumer and business-to-business relationships and lowering your operational costs.
- **Simpler Customization.** NetSuite CRM's NetFlex technology platform gives your company a broad range of customization features that allow you to tailor NetSuite CRM's solution to your specific business and industry needs.
- **Simpler Integration.** NetSuite CRM's NetFlex also provides SOAP standard Web Services to simplify extension of NetSuite CRM to your back office and vertical applications.
- **Lower TCO, Higher ROI.** As a fully integrated, hosted CRM solution, NetSuite CRM offers affordable pricing, accelerated implementation, and comprehensive support to ensure your company's success.

Microsoft offers its *Business Contact Manager* as part of its *Office Small Business Edition 2003* and *Office Professional Edition 2003*. The company lists several ways that this type of software can provide CRM opportunities for the firm ([www.microsoft.com](http://www.microsoft.com)) by keeping track of all of your customer information via *Outlook*, developing customized reports via *Excel and Word*, using *Outlook Business Contact Manager* to foster rapport with clients through email campaigns, and the like. The Microsoft company's website is replete with various ways to use their portfolio of products to build CRM.

The value of using CRM software is clearly revealed at these two distinct websites. However, one questions the validity of using CRM software for small entrepreneurial firms, there is a budget constraint for this type of service. The firm currently has three employees, less than fifty clients, and a budget of \$2,000 to fund the CRM study. Thus, the researchers' had to investigate a more cost-effective plan using CRM techniques through a brainstorming session with the owner regarding feasible communication channels. Of course, one of the company's most important channels is informal through face-to-face meetings and teleconferences with clients. However, the owner agreed to perform a CD-ROM direct mail campaign to her small customer base. This method was selected due to the novelty of the concept and the approach 'fit' the image of the design firm—perceived to be leading-edge in terms of its portfolio of services.

James Meyers (2003) provides some insight into switching the client from traditional media to an electronic format as, "(W)hatever option you choose, your publications will be more successful if they integrate traditional offline print with the



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latest online media, and if they deliver original relevant editorial across multiple mediums. Using both print and electronic media, you can push your readers online and pull them back to print to ensure that you reach the widest possible audience.”

The key objective of this study is to access the client by way of implementing a direct mail campaign with a CD-ROM that illustrates a strong visual content of Pertzsch Design’s recent projects and connects the client to a web survey. This type of CRM campaign was successfully used for Volvo to reach its fleet managers in the company’s “For Life” promise. The main goal of the campaign was to provide leads for the company’s dealer network. A recent article in *Precision Marketing* (2005) describes the innovative campaign that was well-received by its recipients as, “(T)he outer of the pack carries the strapline: 'Finding the right company cars can be tough. So here's a set of keys.' The pack opens to reveal images of the 'control' and 'escape' computer keys, and features the line: 'The only keys you need to unlock Volvo for business.' The campaign will see 20,000 mail packs sent out over an eight-month period, with 130,000 inserts and press ads appearing in trade publications throughout the year. The mail pack includes a CD-ROM with footage of the Volvo range, information on the Volvo Safety Centre, service offers and links to relevant websites.”

A related approach to personalize your message to the customer is to provide a video of ‘you—the entrepreneur’ via CD-ROM or DVD. John Alexandrov, chief executive of Legacy Capital Solutions LLC, a 10-person private equity firm, took Donald Trump’s message of “letting people see your face, here your voice, and decide for themselves whether or not they trust you and want to do business together” as his inspiration to develop a video of his company, his mission, and the like (Katz 2005). However, Katz suggests that the main barrier to entry on this novel idea to approach the consumer is cost. In his article, Katz states, “(P)roduction costs can run as high as \$3,500 per produced minute, depending on the degree of scripting, talent, editing, and production quality requires a sizable investment for most small businesses. . . .”

### **CD-ROM Direct Mail Campaign**

The cost of implementing CRM software, such as *NetSuite* or *Business Contact Manager*, and/or creating a video for Pertzsch Design is way beyond the monetary constraints of the current marketing budget. However, developing an effective CD-ROM direct mail campaign highlighting a portfolio of distinct projects was completed using the infrastructure at the researchers’ university in terms of programming a PowerPoint slide show of the company’s portfolio, securing copyright approval and adding music to the slide show for auditory effect, designing a web survey, and printing the packaging for the CD-ROM. The actual programming of the CD-ROM and questionnaire development has taken over one year to complete. In November of 2007, Pertzsch Design is sending a CD-ROM to both current and prospective clients to create awareness of the firm’s portfolio of projects, to reinforce its visibility with existing and prospective clients, and to collect data by way of a web survey.

The development of a PowerPoint presentation took several months to complete due to programming the CD-ROM in terms of reducing its file size, keeping the length of interaction with the respondent at a minimal level, and ensuring the ‘internet readiness’ of the respondent’s computer through a mail insert. Once the client receives the CD-ROM in the mail, he/she must be able to insert the CD-ROM into his/her computer and effortlessly watch the PowerPoint



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presentation and answer the web survey (a web link is imbedded in the CD-ROM presentation) within 6-8 minutes. Why 6-8 minutes? Based on the professional opinion of various market researchers, the time taken for the respondent to view the PowerPoint presentation and answer the web survey should be less than ten minutes. Jeffrey Graham of ClickZ states that, “(Q)uestionnaires should be like a good poem. Include everything that needs to be there and nothing that doesn't. Brevity is a golden virtue, especially on the Internet where everyone has the attention span of a modern three-year-old” (Graham, 2007, ¶ 8). Thus, in terms of programming the CD-ROM, the difficulties that were faced by the researchers in terms of implementation included:

1. **Reducing the File Size of the PowerPoint Presentation:** The presentation includes many photos of the design projects of the firm. However, each photo significantly increases the file size of the PowerPoint file and a trade-off had to be made between the clarity of the photos (i.e., size of the jpeg) and the size of the PowerPoint file on the CD-ROM.
2. **Securing Copyright Clearance for Music on the CD-ROM:** The issue of copyright protection of music was not overlooked and due to the limited budget of the project, a local musician was approached to secure his copyright clearance for the use of his jazz music in the PowerPoint presentation. Time was also spent on matching the right type of music to the presentation in terms of tempo, mood, and ultimately fitting the ‘image’ of the visual presentation.
3. **Developing the Internet Questionnaire:** The questionnaire was first written and pre-tested in a Word document using several participants. After the pre-test, a new questionnaire was developed in HTML format and placed on the web and pre-tested again. Thus, a web link at the end of the PowerPoint presentation automatically loads the internet survey at the end of the visual presentation on the CD-ROM.
4. **Programming and ‘Burning’ the Final Version of the CD-ROM:** The technical support at the university required a couple of months to program the CD-ROM to automatically upload both the PowerPoint presentation and web survey. The university resources were also used to ‘burn’ the CD-ROM for the mail campaign.
5. **Designing the Packaging for the CD-ROM:** A novel marketing concept requires unique packaging to entice the customer to open and load the CD-ROM. In addition, package inserts had to be designed to educate the consumer to make sure that the internet connection was ‘live’ so the CD-ROM moves effortlessly from the PowerPoint presentation to the internet survey.

The learning curve associated with programming the CD-ROM was immense and the researchers’ would like to share this insight in a conference venue to further highlight these points.

### **Building Customer Loyalty**

Many companies have started some type of reward scheme to recompense the customer for his/her repeat business, such as frequent flyer miles, grocery bonus cards, and pay-back rewards for using credit cards. There are currently so many reward programs, that the consumer

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may find the ‘trading stamps of the 21<sup>st</sup> century’ to be overrated—try to redeem the frequent flyer miles for a family to visit Orlando, Florida in the high tourist season.

It seems that despite the explosion of reward-based programs, the key is still providing the ‘customer experience’ to differentiate the product or service. Compton (March 2005) reports in *Customer Relationship Management* that, “(B)etween the explosion of miles-based programs and the expensive telecommunications customer-acquisition wars of the 1990s, loyalty programs providing incentives in exchange for business have been under the microscope for at least a decade. Loyalty programs have been seen as an attractive alternative, or perhaps simply a necessary evil, during a time when perceived product superiority is difficult to achieve and maintain.” Harvey Thomson, in his book, *Who Stole My Customer?* questions the validity of these reward schemes and cautions managers to focus that the key of effectively competing for loyalty is ensuring the quality of the customer experience, not the quantity of customer rewards. Although he sees some value in limited applications of loyalty programs, Thompson suggests steering clear of the quick-fix appeal of rewards and looking to improve service.

Claude Johnson (August 2005) reiterates the dangers of complacency with current loyalty schemes by addressing the fact that many firms get too content with the loyalty ‘card’ and suggests that four main pitfalls of inadequate CRM as:

1. **Complacency in customer acquisition.** Thinking today's acquisition is satisfactory and will sustain itself. Wrong. Employee turnover in the stores requires continuous attention to blips in acquisition. Even good store personnel will slack off if they are not monitored. The good ones should be given acknowledgement and the bad ones will need corrective action.
2. **Assumption that "the card" and "points or equivalent monetary rewards" is enough** to sustain enough customer retention to make the program worthwhile. Your competitors are communicating to their customers (who are also your customers) on a very regular basis. One of the best programs I am working with communicates with their customers about every month. Each communication has to be relevant and cannot always offer 10% off all inventories. Different messages, different channels, different medium, and relevant to the customer and his or her past purchases.
3. **Assumption that you got the program right and it will remain so.** The program must change as competition changes and as the environment changes. Who would have thought a few years ago that loyalty programs would be sending the rewards statements out via email...Or reminders via email...Or reminders via voice messaging?
4. **Building a single channel loyalty program** when your customer buys via multiple channels. If they buy from any channel, the customer should be rewarded from all channels. Specials can occur in a particular channel just like you have departmental specials, but if the promotion can be multi-channel, make it so.

One of the key competitive advantages of Pertzsch Design is its ability to cultivate a loyal client—many of the company’s projects represent multiple sub-contracting alliances with builders and/or a local architect firm in this geographic area. However, the firm has not

developed any type of reward program to further cultivate this relationship. The firm cannot offer any type of monetary reward to solidify this relationship, such as a 5% reduction in fees, due to its current financial constraints. However, the firm will need to focus more on the *invisible* aspects of its service business by redefining the *customer experience*. For example, Barrier (1997) provides several pragmatic and relatively low-cost recommendations for ‘ties that bind’ a small business owner to his/her consumer through using informal communication channels, such as mystery shoppers; offering free ‘stop by’ visits to the firm, such as an open house; remembering the weight of ‘small kindnesses’, such as a thank you for referral of business; and effectively implementing technology, such as not using a database to supplant the need to keep up with personal face-to-face contact to foster trust and affinity to the firm. Pertzsch Design implemented one of Barrier’s (1997) recommendations by giving an open house event to celebrate its new location that was attended by existing and prospective clients.

### Maintaining Customer Retention

Currently, the owner of Pertzsch Design has struggled with how to effectively ‘mine’ *new* business opportunities? This leads to a bias of focusing on either new or existing clients, so there has been little, if any, thought given to why did I lose that customer? Barrier (1997) provides insight on customer retention by suggesting analyzing the customers that the business has lost and/or alienated. He suggests:

1. **Talk to the customers you lose.** Analyzing why you have lost a customer? Is your front office cordial to clients?
2. **Reward our best customers—but choose the rewards carefully.** Using rewards that provide ‘intrinsic value’ to the customer; creating that feeling of being a ‘valued customer’ without alienating less-frequent clients.
3. **Respect for your front line employees.** Implementing empowerment techniques will all employees to create a stakeholder interest in the firm. This ‘ownership’ will trickle down to the client.
4. **Never try to win loyalty through price alone.** Understanding that your price should be ‘in the ballpark’ but that another attribute, such as personalized service, is worth the additional cost.
5. **Absorb temporary costs to preserve a long-term bond.** Deciding the benefit of appeasing a customers needs versus losing him for future business.
6. **If you don’t want a long term relationship with a customer, don’t pretend that you do.** Offering genuinely sincere customer service that is incorporated into your company’s mission and vision.

Rhey and Gyra (2001) provide pragmatic insight into the market research needs of a small business by developing several questions in terms of assessing customer satisfaction, customer needs and new product (service) development, and customer retention. Table 1 lists these questions below.

**Table 1**  
**Questions for Small Business Study**

<b>Customer Satisfaction</b>
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How do you measure customer satisfaction?
How do you determine what are the important factors for a customer to buy from you?
What level of detail do you use in determining customer satisfaction?
Is satisfaction measurement a regular activity, or do you measure primarily when complaints are high?
In planning the acquisition of customer feedback information, do you obtain input from your managers on what type of information they need?
Is customer feedback information disseminated to your managers and work force in a way that stimulates action?
Do you ask customers if they would buy from you again?
What obstacles prevent you from doing thorough customer satisfaction measurement?
<b>Customer Needs and New Product Development</b>
What role does customer feedback play in new product development?
Do you document customer feedback, that is, use focus groups, assign salespeople to obtain feedback or use other methods to obtain feedback?
Can you point to examples of changes you have made in a product or service as a result of customer feedback?
What obstacles prevent you from obtaining thorough customer feedback?
<b>Customer Retention</b>
Do you follow up on lost customers to determine reasons for the customer defections? If yes, do you document and create a database and then generalize on the learning?
Do you measure the customer retention rate?
Is there a benchmark in your industry for customer retention rate?
How do you use information on lost customers to make changes in the product, service or other aspect of customer interactions?
Do you have a policy for recapturing lost customers?
What obstacles prevent you from obtaining thorough information on lost customers?

This table will serve as a framework to formalize a customer retention plan for Pertzsch Design. A cost-effective means of receiving client feedback is required for the firm. However, as mentioned previously, the researchers' plans to go beyond the conventional customer satisfaction survey to solicit feedback by way of CD-ROM direct mail campaign.

### **Changing Service Offers**

The final stage of the CRM process is to analyze all of the previous CRM concepts and develop a plan to continually update Pertzsch Design's service offerings based on these various customer intercepts. Thus, it is premature to speculate at this point what aspects of the service business need to be altered at this stage of the case study. However, an investigation of this final stage of the process will be conducted in future research.

### **Conclusion**

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This study provides a general outline of CRM techniques and offers a pragmatic model for an entrepreneurial small firm to use in the development of this process. Overall, the study provides key recommendations on various aspects of the process in term of using multiple communication channels, cultivating more brand loyalty, and assessing customer retention tactics. The research in this study develops a visual and interactive direct mail campaign by way of CD-ROM. One of the overriding constraints of developing the CRM process for Pertzsch Design was a marketing budget of \$2,000. However, after reviewing some of the CRM alternatives, an entrepreneur can make great strides with even this limited budget. Currently, the researchers' have finished programming the CD-ROM and web survey and will send out the mail campaign in November 2007. Thus, we cannot offer any generalizations about whether this CRM tool was effective? Whether the model accurately depicts the CRM process? These are research questions that will be addressed in a future study. However, at the time of the conference, February 2007, we will be able to demonstrate the CD-ROM used in the direct mail campaign and share the initial results of the web survey.

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## **OUTSTANDING PAPER RUNNER UP**

### **AN EXAMINATION OF THE DIMENSIONAL NATURE OF MCBRIDE'S BIG FIVE PERSONALITY FACTOR MEASURE AMONG NASCENT ENTREPRENEURS**

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#### **Abstract**

Using responses from 356 nascent entrepreneurs and exploratory principal components analyses the dimensionality of McBride's 39-item biodata inventory was examined. As previously found our results supported a five dimensional solution for the instrument with the five dimensions being similar to the Big Five Personality Factors. Further research to verify consistency of results is recommended.

#### **INTRODUCTION**

"Customer orientation is the employee's tendency or predisposition to meet customer needs in a competitive market situation . . ." (Liu & Chen, 2006, p. 479). Previous studies have shown that personality traits and situations interact with dispositions to influence behavior and performance when frontline employees are dealing directly with customers (Liu & Chen, 2006). It should be noted here that the significance of these personality traits " . . . in predicting customer orientation . . . varies by job type or organizational level" (Periatt, Chakrabarty, & LeMay, 2007, p. 26). For example, the ability to predict the customer orientation of a frontline employee might differ from that of a Chief Executive Officer.

"Customer orientation represents one of the key behaviors necessary for . . . employees to successfully implement the marketing strategies of . . . organizations" (Periatt et al., 2007, p.23). Customer service orientation in employees has been shown to be related to personality. Knowing personality factors to look for in potential employees will allow businesses to enhance customer service (Periatt et al., 2007). The big five personality factors addressed here include extraversion, conscientiousness, emotional stability, agreeableness, and openness to experience.

#### **How the Big Five Personality Factors Affect Customer Orientation**

The measurement of extraversion is a measure of the degree to which a person is outgoing or shy, assessing "the intensity of interpersonal interaction, activity level and capacity to enjoy" (Lin, Chiu, & Hsieh, 2001, p. 64). "Common characteristics associated with this factor are active, affectionate, energetic, optimistic, oriented, sociable and talkative" (Lin et al., 2001, p. 64). Extraversion (outgoing) offers a positive effect on customer service, while introversion

(shyness) has a negative effect. Introverted employees “may not enjoy customers or want to work with them long enough to identify and satisfy their needs (Brown, Mowen, Donovan, & Licata, 2002, p. 112).

“Conscientiousness . . . represents a tendency toward precision and organization” (Brown et al., 2002, p. 112). Traits of conscientiousness include “planning, being careful and organized, responsible, self-disciplined and thorough” (Lin et al., 2001, p. 59). This is a task orientation and there exists a need to perform tasks correctly. Therefore, this will result in a positive effect on customer service orientation, as the employee will work hard to correct any problems and satisfy the customer’s needs (Brown et al., 2002).

Emotional stability, or neuroticism, is the degree to which a person’s emotions vary widely. Associated with this trait are emotions such as being “angry, anxious, depressed, touchy, unstable and worried (Lin et al., 2001, p. 59). If there is emotional instability, the employee may have a “fluctuating desire to serve customers” and be less likely to meet the customer’s needs (Brown et al., 2002, p. 112).

A measure of agreeableness assesses “the quality of an individual’s interpersonal orientation along a continuum from compassion to antagonism in thoughts, feelings and action” (Lin et al., 2001, p. 59). Frequently associated with agreeableness “include being appreciated, forgiving, generous, kind, sympathetic and trusting (Lin et al., 2001, p. 59). Agreeableness may have a positive influence, resulting from the ability to empathize with the customer and a desire to help them solve their problem. This type of personality also causes the person to take personal satisfaction in helping the customer (Brown et al., 2002).

Openness to experience (creativity) is a measurement of “proactive seeking and appreciation of experience for one’s own sake” and “frequently associated with the openness dimension of personality include being broadminded, creative, curious, imaginative, intelligent, original and perceptive” (Lin et al., 2001, p. 59). Low openness scores suggest that a person “may not engage in the introspective analysis of self versus others that motivates people to engage in problem-solving conflicts” (Antonioni, 1998). This could result in avoidance of problems when dealing with customer complaints, negatively affecting their ability to provide quality customer service in problem situations. While it has been suggested that openness has no affect on customer service orientation, and is only included in studies because it is one of the commonly accepted big five personality factors to be evaluated (Brown et al, 2002), other studies have supported openness to experience as a significant factor in customer service orientation (Carraher, Carraher, & Mintu-Wimsatt, 2005).

The goal of this study is to examine the dimensional nature of the McBride questionnaire (McBride, Mendoza, & Carraher, 1997) in a sample of nascent entrepreneurs.

## Methods

The dimensional nature of the 39-item McBride inventory was examined using a sample of 356 nascent entrepreneurs. Subjects were asked to complete a modified form of McBride’s service-orientation biodata instrument (McBride et al., 1997). They were also asked their age and gender. The participants were comprised of 204 (57.3%) men and 152 (42.7%) women with



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ages ranging from 19 to 49. The mean age was 25.6 (SD = 5.43). All biodata items were modified giving the subjects five possible choices. This was recommended by McBride et al. (1997).

### Instrument

The research instrument was the customer service selection instrument developed by McBride (McBride et al., 1997) as modified by Carraher et al. (1998). The modifications were proposed by McBride et al. As recommended by Schoenfeldt and Mendoza (1994) due to problems with the use of coefficient alpha reliability estimates with biodata inventories we used limited information factor analysis in order to assess the unidimensional nature of the scales (Sethi & Carraher, 1993). Carraher et al. (2002) found the 6-month, test-retest reliability estimates to range from .73 (Openness to Experience) to .84 (Extraversion).

In terms of item content, in addition to covering demographics (age, sex, etc.), many of the questions in the inventory consisted of attitudinal, experiential, and behaviorally-based items (e.g. "When you were a member of a small group, how much do you participate?" and "How comfortable are you in new places and situations?"). The response formats for all questions except for age and gender had five response categories.

### Results and conclusions

The data set was subjected to principal component analysis using the Scree test to determine the number of components retained. An oblique (Promax) solution was supported based upon the results of a hyperplane count. A summary of the results is outlined in Table 1. A five dimensional structure was found for the inventory and as previously found (Carraher et al., 2005; Chait, Carraher, & Buckley, 2000) the five dimensions appear to be similar to the Big Five personality factors with this sample of nascent entrepreneurs.

The results of this study support the dimensional structure of McBride's instrument. Consistency of findings with previous studies (Carraher et al., 2002; Carraher et al., 2005; Carraher, Parnell, Carraher, Carraher & Sullivan, 2006; Chait, et al., 2000), suggests the inventory could be used to measure the Big Five personality factors. Given the moderating effects of job type and organizational level in the prediction of customer service orientation by personality dimensions (Periatt et al., 2007) it might be productive for future research to examine the impact that differences in motivations for work (Carraher & Whitely, 1998), organizational tenure (Buckley, Fedor, Veres, Wiese, & Carraher, 1998), or compensation factors (Carraher, 1991; Carraher, Gibson, & Buckley, 2006) might have on the strength of the relationship between personality dimensions and customer service. It might also be helpful to examine the impact that other individual differences variables might have on the observed dimensionality of McBride's survey (Carraher & Buckley, 1996; Sturman & Carraher, 2007). It is recommended that future studies be performed to test the consistency of results across other sample populations and across different cultural groups (Carraher, 2005).

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Table 1  
*Pattern Matrix with Principal Component Analysis, Promax with Kaiser Normalization*

Bio#	Component				
	Extraversion	Conscientiousness	Neuroticism	Agreeableness	Openness
bio1	-.033	<b>.724</b>	-.109	-.013	.057
bio2	.004	<b>.657</b>	-.257	-.130	-.156
bio3	.143	<b>.564</b>	<b>-.304</b>	-.017	-.068
bio4	<b>-.397</b>	.279	.093	<b>.425</b>	.088
bio5	<b>.593</b>	.088	-.002	.202	.078
bio6	.189	-.038	-.193	<b>.680</b>	.046
bio7	.061	.068	-.135	<b>.720</b>	.049
bio8	.057	<b>-.343</b>	.125	<b>.624</b>	-.094
bio9	.005	.242	<b>.499</b>	.281	.031
bio10	.058	<b>.369</b>	<b>.368</b>	.218	.209
bio11	-.119	<b>.614</b>	.247	-.029	-.061
bio12	-.168	<b>.524</b>	<b>.388</b>	.129	-.066
bio13	.168	<b>.386</b>	.095	-.100	.238
bio14	-.130	-.224	.124	.124	<b>.560</b>
bio15	.121	-.042	<b>.493</b>	-.140	<b>.459</b>
bio16	<b>.362</b>	.068	-.100	-.025	.260
bio17	<b>.431</b>	<b>.433</b>	-.038	-.164	<b>.369</b>
bio18	.011	<b>.307</b>	.122	-.245	.230

Table 1 (Continued)

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bio19	.019	.213	.021	-.104	<b>.663</b>
bio20	.103	-.252	-.226	.126	<b>.560</b>
bio21	.085	.019	<b>-.667</b>	.072	.093
bio22	-.086	.253	<b>-.727</b>	-.009	-.167
bio23	-.094	.137	<b>-.669</b>	.209	.226
bio24	<b>.776</b>	.018	.051	-.005	-.018
bio25	<b>.646</b>	-.022	-.094	.103	-.084
bio26	<b>.385</b>	<b>.374</b>	-.111	-.028	.085
bio27	<b>.541</b>	.081	.244	-.055	-.286
bio28	<b>.574</b>	.033	.216	-.152	<b>-.322</b>
bio29	<b>.774</b>	-.043	.082	-.045	-.097
bio30	<b>.484</b>	.249	-.056	-.076	-.102
bio31	<b>.697</b>	-.084	.026	.084	.228
bio32	<b>.833</b>	-.046	-.027	.018	.132
bio33	<b>.583</b>	-.136	.134	<b>.360</b>	.075
bio34	<b>.787</b>	.016	-.043	.003	-.140
bio35	.002	<b>.306</b>	.091	.095	-.288
bio36	.067	<b>.391</b>	-.083	.280	-.033
bio37	.228	.102	-.049	<b>.392</b>	<b>-.378</b>
bio38	.058	<b>.399</b>	-.053	.028	-.068
bio39	.030	.285	-.052	<b>.447</b>	-.134

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## Outstanding Case Submission

### **AL-BAHAR & JACOROSI ENGINEERING & CONTRACTING:**

#### **A Study of the Effect of Kuwaiti and Italian Culture**

#### **on Human Resource Management**

#### **After the Iraqi Invasion**

**Dianne H. B. Welsh, The University of Tampa**

**Abdulrahman Al-Bahar, Eastern Washington University**

### **BACKGROUND**

Kuwait is a tiny country that is located in the Northeast corner of the Arabian Gulf. It is bordered by Saudi Arabia and Iraq. The total population of Kuwait in 2006 was 2,765,300, with 1,653,700 men and 1,111,600 women. Based on an annual population growth rate between 2000-2005 of 3.73%, the population is predicted to grow to 3, 201, 546 by 2010 (United Nations, 2006). A large percentage of the population are non-Kuwaitis. The main language is Arabic, although English is widely used in business.

Kuwait covers an area of 17,818 sq km, most of which is flat desert. There are only two notable areas of high ground in the country, Mina Al Zor and Muttla Ridge, and the Ahmadi Range. Kuwait coastal waters cover 2,200 sq miles, and the coastline stretches 290 km.

According to the 1985 census, 59.5% of Kuwaiti men and 13.8% of Kuwaiti women were employed in the work force. However, in 1993, only 20.1% of the work force was made up of Kuwaiti men, although the number of women working has remained about the same. Ninety percent of the Kuwaiti work force is employed by the government. Ninety-one point seven percent of non-Kuwaiti men and 42.7% of non-Kuwaiti women were part of the labor force. Many foreign workers come from countries such as Pakistan, India, and the Philippines for the main purpose of finding employment.

"Wages are considered the most important distribution channel for effecting social justice in the State of Kuwait since 90% of the Kuwaiti labor force, both men and women, worked in the administrative positions in the state and public sectors till the end of 1994" (Kuwaiti Ministry of Planning, 1995, p.14).

Many women have continued to be employed primarily as teachers, doctors, nurses, and secretaries. Many have gone into other professions as well. Families have developed their own private businesses. Through government programs or family assistance, many Kuwaitis have developed profitable businesses in the last 20 years.

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Kuwait is interesting because it is a combination of a welfare state, private enterprise and a state-run economy. The government controls the oil production and resources of Kuwait. This is the source of the great wealth that has come to the country. However, with this wealth, the government has helped many privately owned businesses become prosperous, it has brought many opportunities to private business, and it has allowed a great increase in the standard of living for all people living in Kuwait.

"The philosophy of modernization and building a contemporary state developed into a philosophy that aims at promoting the citizens' standard of living due to the increase in oil revenues and the local developments" (Kuwaiti Ministry of Planning, 1995, p. 31).

One of the most important policies of the Kuwaiti government is the continuous advancement in programs of education, culture, information, social care and religious service that is tied to maintaining the unity of the family.

Kuwait is classified among the group of richest countries in the world. The per capita income in 1995 was \$10,800, a drop from \$14,700 in 1990 before the Iraqi invasion. The average Kuwaiti income equals five times the international average. Although there are many very wealthy families in Kuwait, there are no very poor families as compared to other parts of the world. The government provides all families with a nice home, and a garage. These homes have three bedrooms or more. All education is paid for by the Kuwaiti government, which includes a free college education. Non-Kuwaitis can also receive free education if they maintain a high grade-point average in high school. Because of this there is a strong middle class. However, there is a higher ratio of millionaires as compared to other countries.

### **Employment Security**

The Kuwaiti laws governing labor are valid whether or not you have a written contract. Some of the main points of the law are as follows. A contract between employer and employee can be verbal, but it is preferable to have it in writing. It must be written in Arabic. The normal working week is 48 hours, usually six days at eight hours per day. Overtime is paid at a rate of time and a half of the normal rate, with two times the normal rate on holidays. In addition to official holidays, all workers are entitled to 14 days of vacation after one year of employment. The normal work days for public sector workers are Saturday through Wednesday, Thursday and Friday are days off. For the private sector, the work week is Saturday through Wednesday, with a half day on Thursdays. The banking sector employees work Sunday through Thursday.

There is no set minimum wage. Female employees must receive equal pay. Trade unions are allowed, but only one can be formed per establishment and only one for each profession will be recognized. Because all expatriates must be sponsored by a Kuwaiti national or company, theoretically, there should be no unemployment. All unemployed Kuwaitis must register at the Ministry of Social Affairs and Labor where employment assistance is available. A person who intends to be employed in Kuwait must have a work permit and a No Objection Certificate (NOC). The first is issued by the Ministry of Social Affairs and Labor, and at that time, the Ministry of the Interior must be applied to for the NOC and entry permit. In order to obtain a residence permit, the sponsor must complete a form issued by the Ministry of the Interior. The persons will then be

fingerprinted and undergo a medical check. Once residence procedures are completed, the person must then register for a civil identification card which should be carried at all times.

### **Joint Stock Companies**

These are known as Kuwaiti Private Shareholding Companies (KSC). It is necessary to obtain a decree from the Ministry of Commerce authorizing the incorporation of a KSC. The shareholders are issued with negotiable shares of equal value, and their liability is limited to the nominal value of their shareholding. Public subscription is permitted. Fifty-one percent of the share capital must be Kuwaiti-owned. The accounts of a Joint Stock Company must be independently audited. Copies of the company's accounts must be filed with the official commercial register.

### **AL BAHAR JACOROSI ENGINEERING & CONTRACTING COMPANY (KSC)**

The Al-Bahar Jacorossi Engineering & Contracting Company was formed in 1993 and is a privately held shareholding company. The Al-Bahar family owns 51% of the stock, and Jacorossi Imprese of Italy owns 49% of the stock. The Chairman of the joint venture is Fahad Al-Bahar. The Vice President is Adel Al-Bahar. Fahad Al-Bahar is Adel Al-Bahar's uncle. A foreign company can own no more than 49% of the stock in a Kuwaiti operation. The company mainly contracts out maintenance of work pertaining to mechanical, electrical, instrumentation, fire, pumps, pipes and high voltage signs. This joint stock company was formed for the purpose of contracting engineering activities in the oil sector, power sector and industrial infrastructure by combining the experience and expertise of these two companies.

Fahad Al Bahar & Sons Trading Company has been in existence in Kuwait since 1988 as a general trading and contracting company. It is familiar with all the local government laws, procedures and systems. This knowledge is essential for any company operating in Kuwait. The company also has experience in the importing and exporting of industrial and consumer goods.

The Jacorossi Imprese Company (formerly known as Petrochemical International Instrument Company) has been in existence in Italy since 1953 as an engineering and contracting company. It deals primarily with service construction and maintenance work in the following industries: oil, power, and petrochemicals. Its field is mainly in mechanical, electrical, instrumentation and telecommunications works. The company has vast experience completing infrastructure projects in Italy, as well as countries in Northern Europe, South America, the Middle East and North Africa. Additionally, the company has done a great deal of business in the Middle Eastern countries of Saudi Arabia, Oman, United Arab Emirates, Iran, Iraq and Bahrain. In the 1980s, the company wanted to establish a presence in Kuwait to expand their operations in the Persian Gulf. Kuwait had become a major force in the oil industry, and it is a very profitable market. PIICO started their Kuwait operations under the umbrella of the Al-Bahar International Group who was acting as their agent. The company is still known as the PIICO Company.

While fulfilling a maintenance contract with the Mina Al Ahmadi Refinery, the Iraqi Invasion occurred. The Al-Bahar - PIICO Company suffered great losses due to the war. All the equipment and vehicles of the association was stolen by the Iraqis. The employee camp for the project was destroyed, including the central kitchen equipment, air-conditioning equipment and furniture. It was valued at 1.5 million. The Al-Bahar-PIICO Association faced this ordeal with courage and a



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sense of responsibility to its employees. In August 1990, shifts of 20 people were working twelve hours a day and were paid by the Association without a guaranteed payment from the oil company that owns Mina. The stockholders agreed to keep everyone employed. The Al-Bahar-PIICO company met in London. A liaison office was established in Bombay to prepare for a quick return after the country was liberated. Eventually, all 103 employees were moved to sites immediately after the liberation and returned to their duties.

Due to the destruction caused to the infrastructure during the Iraqi War, there was a great need for skilled labor for reconstruction. PIICO had just changed their name to Jacorossi Imprese. The Al-Bahar Company decided to form a joint engineering and contracting company. Not only were the services of the joint venture greatly in demand, forming a joint venture would offer the company advantages that it was unable to obtain when Al-Bahar was acting as Jacorossi's agent. The joint venture would legally be a local company, and the company could receive support of up to 10 percent from the government.

Under Kuwaiti law, the government will supplement the financial contract of a Kuwaiti company by up to 10 percent of the cost during contract negotiations. For example, several companies, including foreign companies, might be bidding on a contract. If a foreign company underbids the Kuwaiti company by as much as ten percent, the Kuwaiti government will supplement the ten percent bid and the Kuwaiti company will get the contract. On the other hand, if the Kuwaiti company bid 15% higher than the foreign interest company, the foreign company would be awarded the contract because it is more than a ten percent differential.

The Al-Bahar and Jacorossi Imprese Companies realized that they had been losing several bids because Al-Bahar was only acting as an agent and the bids for contracts were not seen as local bids. By forming a joint venture, the Al-Bahar Jacorossi Imprese Company would be able to win more government contracts. Also, the company would not have to pay a four percent import tax required on any materials coming into the country. This would save the company millions.

Some of the projects that have been successfully completed or are in the process of being completed are:

1. Maintenance and repair of electrical installation in Shuaiba Power Station owned by Ministry of Electricity and Water;
2. Maintenance and repair of electrical installations in an oil field owned by the Kuwait Oil Company;
3. Construction of mechanical, piping, and electrical installations of the Ethylene Glycol Project owned by Equate Petrochemical Company;
4. Operation and maintenance of control room in Kuwait International Airport for Directorate General of Civil Aviation;
5. Revamping and modernization of an oil refinery at the Mina Al Ahmadi plant owned by the Kuwait National Petroleum Company;
6. Construction of new control room with computerized and electronic controls owned by the Kuwait National Petroleum Company; and
7. Design, engineering, construction and commission of mechanical, electrical and instrumentation installations for water treatment plants at Az Zour and West Doha power and water stations owned by Ministry of Electricity and Power.

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The company employs around 1,400 personnel. Employees range from laborers and technicians to highly qualified engineers with master's degrees. The company serves oil-related industries, as well as utilities. The company has on-going contracts with the Kuwait National Petroleum Company to revamp the Mina Al Ahmadi Refinery, the Kuwait Oil Company for electrical maintenance at different locations, Ministry of Water and Electricity for water treatment, and a number of petrochemical industries for piping works.

Starting an international company outside of a parent country is full of challenges. There are many obstacles to overcome. One major obstacle is relocating key personnel. One of the biggest problems faced by Italian employees who moved to Kuwait to work was trying to adapt to the very different climate and culture. Most expatriates confirm that it takes a minimum of six months to adjust. The summer months are extremely hot and dry, reaching 120 degrees F., and those Kuwaitis who can travel outside the country during that time do so. For individuals who are not used to this heat, adjusting to traveling and being outside is difficult. That is why Kuwaiti companies often have hours in the summer time where the workers go home for several hours during the afternoon, which is the hottest time of the day and then return to work around 6:00 and work until 8:00 p.m. in the evening when the temperatures are a bit cooler.

Of course, customs are very different in Kuwait, which is especially evident in religious traditions. For example, the Italian workers have a hard time being in Kuwait during Christmas. Most Kuwaiti citizens do not celebrate Christmas because the country is predominantly Islamic. There are usually no company holiday parties at Christmas, although in the last few years, the Al-Bahar/Jacorossi Company has held a Christmas party for the Italian workers. But there are still no community celebrations.

Another adjustment that has to be made is during the month of Ramadan, which is the Islamic traditional thirty day period of fasting and increased religious observance. During this time, Muslims often keep shorter hours and leave for prayer breaks. Kuwaiti companies accommodate the observance of holy rituals. However, other workers, such as the Italians, who are predominantly Roman Catholic, are not working shorter hours. This could lead to some conflict in the workplace. However, Al-Bahar/Jacorossi have prepared the foreign workers, explaining the importance of the holiday and why accommodations are made for the Muslim employees.

Kuwait has become much more open, with men and women gathering together for dinners and meetings. Before the 1960s, men and women were traditionally separated. However, for social gatherings such as parties, it is still common that men and women socialize separately, but this, of course, is not required. However, Italian men and women are used to celebrating together. This has made for interesting situations in the work place when social events occur. It is difficult to simulate both cultures.

English is the second language for most Kuwaitis and Italians, so language is not a major barrier; however, minor differences in usage sometimes occur. There are many cultural similarities between the Italians and Kuwaitis. Some of the common characteristics are that both are quick decision makers. They both talk loudly with lots of hand gestures. Many Kuwaitis believe it is easier to do business with the Americans because they are more straightforward in their business dealings. Both Italians and Arabs do not talk in a straightforward manner, and so it takes longer to close a deal. Americans are more flexible. Americans would rather get business out of the way and then

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socialize. The British stop to have their afternoon tea, and usually are much more rigid concerning their schedules.

### **THE CASE STUDY**

Mr. Adel Al-Sulaiman sat at his desk in the corporate offices of Al-Bahar & Jacorossi Engineering Company, looking out the window. It was three months after Kuwait had been liberated from the Iraqi soldiers, and although this had been great relief for his people, there were still many obstacles to overcome. He was enjoying looking outside because the skies had begun to clear. It had been a while since Kuwaitis could enjoy any clear sky due to the burning oil fields left behind by Saddam Hussein's soldiers. For the first few weeks, it was difficult to tolerate being outside for very long due to the gases and smoke that filled their environment. With assistance from all over the world, Kuwait was getting back on its feet much more quickly than anyone expected.

Mr. Al-Sulaiman was the director of human resources for the Al-Bahar Company. The Jacorossi Engineering Company had a separate director, although they generally worked together to develop human resource policies. As he sat in his office, he began to contemplate the major challenges that lie ahead. He thought about their employees, and the trauma of the last several months they had endured. Most families lost everything of value that could be carried away by Iraqi soldiers. They lost their automobiles, office equipment, computers, and family mementos. Still, most Kuwaitis felt lucky if their family members were safe, although most knew those who had disappeared or were killed during the invasion. Mr. Al-Sulaiman knew that they would need extra moral support and assistance from the company.

Mr. Al-Sulaiman also knew that the returning Italian employees would have fears and challenges as well. Many of the Italians also had lost important personal possessions. They had been forced to leave the country right after the invasion, and they did not have time to take much with them. They were apprehensive about the current security conditions of the country. Saddam Hussein was still in power, and this was enough to create fear and anxiety.

Because of the high anxiety and the losses suffered by their employees, it was Mr. Al-Sulaiman's job to create assistance programs to help their employees readjust to normal life. However, no one in his country had ever faced this sort of situation. He worried about whether he would be using the right approach. He worried that the company might not be doing enough. A meeting was set up with the owners and the top management to introduce his ideas.

The company was very concerned about two issues. First, they were concerned about the well-being of their employees. The company has a strong sense of community and loyalty to every employee. Management understood the pain of loss, and they wanted to help in any way they could. They also understood that the regular pressures of life, the demands of a job, and for the Italian employees, living in a new culture was very stressful. Add the anxiety, fear and loss brought by a hostile invasion, and this compounds problems of employees being able to do their jobs well. The company wanted to find ways to help employees relieve some of their stress and feel more secure in their environment again.

Mr. Sulaiman had three programs in mind to help with these problems. First, he would get approval to have an assistance program for any employee who needed help with their financial and housing

needs. If the employee had lost their automobiles, their furniture, and other personal belongings, there were several programs in Kuwait where people could receive financial assistance. This assistance was particularly important for the Italian employees who did not have family and community support systems. The company would submit the names of employees, list their needs, and be the spokesperson for the employees to the outside agencies.

The company also wanted to help employees deal with the psychological problems they might be facing. Again, the Kuwaiti employees had outside resources from their families and religious affiliations, while the Italian employees would need extra support from the company. However, the company still felt it was important for all employees to be able to communicate about the invasion and their personal reactions. Mr. Al-Sulaiman suggested holding several company meetings to address the issues of employees. First, they would discuss the kinds of problems that were common in the situation, and then they would give information regarding sources of assistance and the commitment of the company to provide support.

Finally, a program would be created that would help individual employees if they needed extra counseling. Mr. Al-Sulaiman would personally contact and set this up with agencies in the community that could help employees cope with their psychological problems. The costs of any counseling would be paid for by the company.

## TEACHER'S NOTES

### Discussion Questions and Answers

1. What kind of training could the Italians receive before coming to Kuwait that would help them be better prepared for cultural differences?

The Italian workers would need training in the differences in culture, customs and management styles they might encounter in their new job site. It would be especially important for them to understand the characteristics of Kuwait as an Islamic culture, and the geography, climate and customs of the area.

2. What are the obligations of the company in this situation?

Employers are obligated to provide employees with a safe, healthy and secure work environment. Health can mean a general state of physical, mental, and emotional well-being (Mathis and Jackson, 2006). In this case, the company is addressing the mental and emotional well-being of the employees. However, the factors that are causing distress are from the external environment, not the internal environment. The ordinary obligations of the company are to make sure the workplace itself is safe and healthy. But the situation in Kuwait created an extraordinary situation. The company was not legally obligated to provide assistance to its employees, or even ethically obligated. However, if the feelings of trust and commitment from management to employees are to be upheld, then the company must respond in this extraordinary situation. If the company wants productive employees, it must address the stressful emotional and psychological needs of an extraordinary and traumatic situation such as this one.

3. What more could the company do to support its employees?

The company could keep employees completely informed about the situation in the external environment (political issues, recovery updates, etc.). For example, one of the main concerns in Kuwait right after liberation was the harmful effects of the smoke and other pollutants in the air due to the burning oil fields. Many people were afraid of spending too much time outside. The company could provide weekly updates that described the particulate counts or other relevant information about environmental conditions. Many services took a while to be back to full

operations, so the company could provide weekly information updates. Any change in the political situation (such as Saddam Hussein assembling Iraqi troops near the border) should be conveyed to employees if and when management receives the information.

By providing information about what steps are being taken to bring the country back to normal, and what the community is doing to assist will help the employees feel more secure.

4. Do you agree with Mr. Al-Sulaiman that management should not become too personally involved with personal problems of employees? Why or why not?

When an emotional problem that is related to stress or other factors could interfere with the employee's ability to function, they should be directed to professionals who can help. (Mathis and Jackson, 2006). This is because the manager does not have the tools to diagnose the exact nature of the problem and the best way to help the employee overcome it. Although the management at the company understands why there is stress and anxiety, they do not know how each employee might respond and the best way to help them cope. Also, the managers and supervisors were also stressed, and it might be too difficult for them to take on the added responsibility for the well-being of their employees.

5. The company created an Employee Assistance Program (EAP). What are the benefits of this kind of program?

Most managers believe that Employee Assistance Programs make their other duties easier and more effective. Besides helping the employees, the company needs to get back on track as far as production to make up for lost time. The daily supervisors and managers should not be consumed with personal problems of employees which could have certainly happened in this situation. Also, they do not have the background and expertise to deal with psychological problems. Only a trained expert in the field should be utilized. With an EAP, the employees can get appropriate help, and the managers can focus on the daily operations. Also, EAPs help to ensure the employees get the right kind of help for their needs.

6. What are some other employee issues where an EPA might be appropriate?

Some of the other issues where an EPA might be appropriate are drug or alcohol abuse problems, life-threatening illnesses, marital problems, depression, and any other kind of situation that is causing the employee so much stress they are having a hard time functioning in the work environment.

7. Is the Al-Bahar/Jacorossi Engineering Company doing enough for the Italian employees? Kuwaiti employees? Why or why not? Are there any other suggestions you could make.

Obviously, the needs of the Italian expatriate employees differ from the Kuwaiti employees. The company is aware of some of the hurdles to be faced. A support group for Italian employees and their families could be organized by the company and supported through providing a meeting room and refreshments. They could special order Italian desserts and other treats for the employees. During Ramadhan, the company could give the non-Muslim employees the same break time that is afforded the Islamic employees but could be taken at different time periods. Better yet, they could give similar leaves to Christian employees during their religious holidays--Christmas and Easter. The company seems to be making a concerted effort to aid the Kuwaitis employees. It would be helpful to have an assistance office established that not only provides contacts for assistance, but also follows up with the employee agency.

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BUSINESS OUTREACH PROGRAMS: GROWING INTEREST AND MONEY  
IN OUR COMMUNITY

**Deborah Scarfino, William Jewell College**

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A regional bank was trying to develop new business with fifty dollar coupons for cash that would be placed in a new account to specifically motivate the opening of new savings accounts. Because interest margins are a primary source of profit, savings accounts are an important piece of the product mix in a banking center. Management shared that the budget dollars spent on this promotion was not working well.

Three primary issues were causing concern: (1) the promotion they were investing in was not driving new potential customers to their bank location, (2) the bank was spending money on a program that was perceived as matching competitive promotions, but not innovative, and (3) the results were not generating loyal savings customers.

A “Money Farm” program initiated by SIFE (Students in Free Enterprise) students has generated exciting results for this bank. Developed and tested in spring 2007, the program has been expanded ten-fold for the year ahead.

Student leaders will review this “Best Practices in Business Outreach Program”.

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## DESIGNING AN EXECUTIVE MBA AROUND ENTREPRENEURSHIP: CHANGING A MINDSET AND THE CREATION OF SME'S

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“...the modern workplace no longer resembles the factory assembly line but rather the design studio, where the core values are collaboration and innovation...” Business Week (2007, p. 45)

### Abstract

The faculty of the Executive MBA program (“EMBA”) are investigating a change to the EMBA curriculum. The motivation for a change is to provide a unique, applicable and experiential-learning opportunity. Participants will experience a threaded, experiential-learning component to the curriculum, and second, to advance regional technological research from laboratory to marketplace. In that process a new course focusing on technology assessment and product/service commercialization will be added to the curriculum. In addition, each course offered in the EMBA cohort program, where appropriate, will offer a discipline-specific “thread” to support each team’s commercialization project. Each EMBA class will be expected to assess 3-5 technologies over the course of the 18-month program. Every 12 months a new class is introduced therefore, as many as 10 projects maybe active at any time.

### Executive Education

Executive education is the “hottest product in the growing MBA market” and is forcing universities to heighten their focus on the quality of their executive MBA programs. (Tyler 2004, p. 105, Page et al, 2004, Filbeck and Webb, 2000) In 2004, 53% of executive MBA programs around the globe showed an increase in interest from perspective students, while traditional MBA programs, reported a decline in applications. (Logue, 2005) Sihler (1993) found that students of executive education are more demanding and critical and value experiential learning more than other students. Cason (1993) asserted that executive education students prefer a results oriented program.

Filbeck and Webb, (2000) interestingly found the executive MBAs are more interested in seeing linkages between different materials and the big picture and also have a desire for eclectic pedagogical style. In adopting an eclectic approach may encourage executive MBAs to stretch themselves personally in less developed areas and assist in their overall professional development. They found that the entire class, regardless of learning styles, is best challenged by mixing a lecture format with active learning techniques and should be exposed to complexities and ambiguities. They concluded that it is valuable for all executive MBAs to work in groups



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that are outside their preferred dimensions and by doing so will again, assist in their professional development.

Executive MBAs are collaborative exchanges and provide for hands on projects with many students using actual projects related to their employer with some even contributing to new product development. (Tyler 2004, Logue 2005)

Because of the continued interest in executive MBA programs, universities are looking at different possibilities for positioning their executive MBA products in the marketplace. It appears that even in the top ranked executive MBA programs that the schools position themselves to address the student constituents, and to a far lesser degree, their employing organizations even though estimates show as high as 84% of executive MBA students have their programs funded by their employer. (Page, et al, 2004)

The research of Page, et al, (2004) lists a number of criteria programs need to address to better serve the needs of the employer. Listed first on the criteria list is “maximize the organization’s competitive advantage” (p.8) and specifically addresses problem solving and strategic thinking while also listing a proficiency across a number of selected business disciplines.

### Entrepreneurship Education

Attributes usually associated with entrepreneurship include innovative approaches to problem solving, high readiness for change, self confidence and creativity uniquely contributes across all economic systems. It is now recognized that entrepreneurship is not exclusive to the creation of new businesses that also offers opportunities within existing organizations and as often termed intrapreneurship or corporate entrepreneurship. (Heinonen, et al 2007)

Traditional teaching methods, such as lectures and examinations, are not the most effective means of encouraging entrepreneurial skills set development. (Gibb, 2002; Sogunro, 2004) In entrepreneurial learning, traditional teaching methods need to be complemented (Gibb, 1993; 1996; 2002) by activities such as learning by doing and engaging students in active learning or that participate in the control and mold the learning situation (Gorman et al, 1997; Fiet, 2000).

In the Heinonen, et al (2007) study, which focused upon entrepreneurial course work for bioscience researchers, they recognized and divided class participants into groups with inclinations toward intrapreneurship, and others in entrepreneurship. They found that by dividing the class into two groups, and not forcing everyone along the path of starting a business changed the attitudes of the intrapreneurship-oriented students, some of whom even became more positive toward the overall course.

### Intrapreneurship

Intrapreneurship is the practice of creating new business products and opportunities in an organization through proactive empowerment. Intrapreneurship focuses upon individual’s or team’s willingness to take calculated risks and act to create business opportunities. A cognitive decision to embrace intrapreneurship needs to start at the top and be communicated throughout the organization. Employees need to be presented with opportunities to apply their knowledge

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and develop new skill sets and create intrapreneurial opportunities for organization. (Eesley and Longnecker, 2006)

A recent editorial in U.S. Business Review (2007), suggested that large organizations need to nurture entrepreneurial qualities in existing employees and create a culture that supports innovation, risk taking and flexibility. And, because of rapidly growing globalization and competition, and rate of technological changes, intrapreneurship provides a vehicle for organizational renewal and competitive positioning (Seshadri and Tripathy, 2006).

Organizations face increasing competition and are under tremendous pressure to find competitive advantages and places innovation at the forefront to be a determining factor in the organizational success (Eesley and Longnecker, 2006)

From the standpoint of the employer fostering intrapreneurship allows employers to attract and retain the best talent. A survey of young professionals in 2004 by Common Purpose, showed that 44% of those young professionals claimed to be given little opportunity to be creative or innovative and 57% were searching for new employment. The article goes on to suggest that the company should send people to training courses, bring in entrepreneurs, and help create a culture of lifelong learning.(Hanson, 2005)

#### Justification

Kuratko and Montagno (1989), suggest that intrapreneurship training requires more than activities that engage innovators but needs to create new managerial practices. Their model relies upon a mix of lecture, discussion, videotaped case studies, small group activities, project team development, individual assessment, and presentations. Zahra, Nielsen and Bogner (1999) suggest that there are important consequences of intrapreneurship activities for building organizational competency while it contributes significantly to organizational learning and knowledge.

Marcus and Zimmerer ((2003), identify that there is a noticeable absence of intrapreneurial programs and that intrapreneurial activity has the potential to dramatically improve corporate profitability. They go on to state that intrapreneurship has broad implications for both manufacturing and educational organizations and needs to be integrated throughout educational and industrial organizations.

#### The Course

The college has decided to incorporate this project into the EMBA program because of the high-caliber, mature and seasoned individuals recruited into the program. Historically, the EMBA program has attracted participants from diverse backgrounds including public and private sector leaders and represents such fields as science and engineering, healthcare, information technologies and others. (Filbeck and Webb, 2000, Logue, 2005)

Specifically, at the onset of the EMBA coursework, students will attend an overview session where they will gain an understanding of the technology assessment process and the components necessary to complete a feasibility analysis or business plan. Support materials like Abramo and

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Edmondson's "BioStory: Convincing Investors to Finance a Biotech Company" (2006) will be incorporated into the initial sessions. Student teams, comprised of 4-5 students, will work under the supervision of the faculty and in cooperation with, the SBDC, the College of Engineering, and the business and patent liaisons and interns at Medical School. These "teams" will initially identify promising technologies, and over the course of the ensuing EMBA program of study, assess the technological viability and the business feasibility of each project. The EMBA coursework will assist in assessing market, financial, production, and other business-related issues. The result of this 18 month long project will be a professionally drafted technology and business assessment accompanied by a formal presentation to all interested parties.

### Threaded

The students are required to complete a 48 hour curriculum over a period of 18 months. Course work includes traditional business curriculum of accounting, marketing, finance and others. The faculty have committed to utilize aspects of the student projects as examples within their specific course materials while it is anticipated that the students will engage the faculty, as subject matter experts, to support their projects. Some courses are better suited for some courses such as finance while less suited for others like Field Study in International Business.

In addition to "threading" through existing coursework, six-credit hours will be specifically designed to support the student project:

- One two-credit hour segments will be delivered at the beginning the course. The initial meeting will set the ground work for the assessment of the technologies, introduce the students to the technologies available for study, and finally, map out the expectations for the overall project.
- Two one-credit segments will be delivered one-third and two-thirds through the course. These will serve as formal checkpoints to determine progress on the projects and to map out future expectations.
- A final two-credit hour segment will be delivered near the end of the 18-month EMBA program. This will provide for submissions of the completed project and presentation of the findings to the stakeholders.

Where appropriate, the projects will be further honed for entry into the Reynolds Governor's Cup Business Plan Competition each spring. The competition offers a total of \$104,000 in prize money and unprecedented exposure to the Arkansas business community. The University already has a successful "proof of concept" where an EMBA team actually brought a product to market. This successful venture will serve as a model and inspiration to future projects.

The outcomes:

- A real world application project for the students
- A unique skill set developed through the process with direct application to other entrepreneurial startup opportunities
- Assessment of Arkansas-based technologies
- Potential for commercialization of those technologies

- Collaborative development amongst institutions and academic disciplines
- Actual product/service commercialization

## Conclusion

The author suggests that widespread benefits may result from exposing ascending and top level corporate management to the principles of intrapreneurship. This program may well produce an opportunity to directly survey, on an ongoing basis, the results of such training. There also exists a strong potential to create SMEs (Small and Medium-sized Enterprises) around the technologies. It must be noted that for intrapreneurship to be successful within a large organization there must be top down and broad based acceptance within the organization.

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# **USING ELECTRIC COOPERATIVES TO BUILD ENTREPRENEURSHIP IN RURAL AMERICA: AN INVESTIGATIVE CONCEPTUAL FRAMEWORK**

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## **Abstract**

This paper proposes a new framework for rural entrepreneurship that builds upon the extant literature on rural entrepreneurship. We describe the current literature on entrepreneurship in rural America. We then develop a framework for rural entrepreneurship that can be adapted to fit the needs of rural community development efforts. We use an example of an electric cooperative in North Carolina that has taken an active role in entrepreneurial development to demonstrate how the framework applies to practice. We conclude by discussing the ramifications of this framework for researchers, public policy officials, government leaders, and individuals interested in rural entrepreneurship.

## **INTRODUCTION**

Consider, if you will, the plight of an entrepreneur in the Appalachian Mountains, the plains of Nebraska or the Cascade Mountains in Washington, seeking to start a new business venture. The federal government actively attempts to assist new businesses and existing small businesses throughout the U.S. The best known programs include Small Business Development Centers (SBDC), Small Business Institute (SBI), Service Corp of Retired Executives (SCORE), and small business incubators (See Wortman, 1990a for a detailed list of other types of policies and programs). However, entrepreneurs in rural America face a combination of challenges trying to obtain assistance either due to a lack of programs in their region or reductions in federal funding for these programs. Van Horn and Harvey point out that despite the efforts of the SBA and other organizations, “entrepreneurial firms ... in rural areas face a host of difficulties related to their external and internal environment. They are small and isolated. The people and information base to provide expert support for critical decisions and functions do not exist internally or externally in the rural location” (Van Horn and Harvey, pg. 157-158, 1998). For example, the SBA has suffered cutbacks in many programs, such as the elimination of the Small Business Institute program, as well as decreases in funding for their well known SBDC program. This predicament means the rural small business must seek assistance from a SBDC that may be geographically distant, unaffordable due to travel time and distance, or simply unavailable. Thus, entrepreneurs in these remote areas are left with few options for getting help to start a business (we define an entrepreneur as anyone that starts a business).

Despite advances in entrepreneurship in the United States, stimulating business growth in rural areas continues to be a challenge. In particular, we lack a consistent model or framework for entrepreneurship in rural areas. Wortman (1990a) addressed this difficulty with his concept of rural economic development zones (REDZs). Even so, Wortman laments that “practically

nothing is generalizable from the studies that have been completed.” (Wortman, 1990a, 225) Other researchers have proposed models of assistance programs for rural areas that are so general that they may prove difficult to duplicate across the diversity of rural settings that exist in the U.S. Thus, the purpose of this research is to recommend a framework for entrepreneurial development that is well suited to a rural environment and builds upon our understanding of business assistance. Our emphasis is to propose a specific “central player” for rural area business assistance that can easily be duplicated in a variety of rural settings. We do so by drawing from a review of the extant literature, a model of rural economic development based on a loose adaptation of Mintzberg’s work on organizational design (Mintzberg, 1981), and observations of rural economic development efforts by an electric cooperative.

In the next section, we introduce the literature on rural entrepreneurship and highlight the problems traditionally facing these would-be entrepreneurs. Then, in the third section, building on the work of Wortman (1990a and 1990b) and Lyons (2002), we propose a framework for rural economic development. In the fourth section we use a rural electric cooperative (REC) in North Carolina to illustrate the proposed framework. The paper concludes in the fifth section by discussing the implications of the framework for policy makers, economic development leaders, and academicians.

## **Literature Review**

### **Rural America**

Rural America comprises over three-fourths of the land mass of the United States, but fewer than one-fourth of the American population. These rural areas are characterized by low population densities, income levels that are often below the federal poverty level, and low education levels. While rural Americans generally have strong ties to family, friends, and their community, these strong ties are contrasted with weak ties to business and economic development agencies (Shields, 2005). In addition, most of rural America tends to have limited access to financing, skilled labor, technology and transportation though there is empirical evidence to the contrary (Shields, 2005). These limitations have been persistent in spite of over ninety years of scrutiny by the federal government (Rasmussen, 1985). These problems pose constraints that must be addressed by programs of rural economic development.

### **Rural Economic Development Policy**

Rasmussen (1985) points out that, as of 1985, the federal government had analyzed rural development for over 90 years. Many of the economic problems facing rural America are driven by demographic changes such as depopulation and an aging populace. Rural development as defined by Sauer (1986) includes issues such as encouragement of farm-related enterprises, technical and management assistance for rural entrepreneurs, analysis of federal farm policies, technical assistance to local governments located in rural areas, rural transportation, rural telephone service and information systems, natural resource management, rural financial history, rural families, and family management in rural areas.

Historically, economic development in rural areas had focused on attracting large companies (Drabenstott, 1999). This tendency of trying to hit home runs, to use a sports analogy, is a high-risk strategy because rural areas are competing with one another. The end result is a win/lose situation with one county in America “winning” the new manufacturing site, and the other counties losing. Recently, researchers and some public policy officials have started to look toward small business, entrepreneurship, and the development of economic clusters as

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alternative means of economic development (Whitener and Parker, 2007; Drabenstott and Henderson, 2006, and Lin, Buss, and Popovich, 1990).

Wortman argues, “Economic development and entrepreneurship are clearly related. Year in, year out, the Annual Report of the Small Business Administration has reported that more than two-thirds of all new jobs that are created in the U.S. are developed through the entrepreneurial spirit involved in small businesses. Therefore, rural economic development and rural entrepreneurship are also clearly related.” (Wortman, 1990a, 222) He defines the term rural entrepreneurship as “the creation of a new organization that introduces a new product, serves or creates a new market, or utilizes a new technology in a rural environment” (Wortman, 1990a, 222).

### **Economic Assistance in Rural America**

The SBA recognizes the problems faced by small firms. According to the Office of Advocacy, “...today, rural small businesses face special challenges—limited access to capital and technological infrastructure, an eroding employment base, and the need for agriculture to compete globally—to name a few...” (SBA website, 2007).

The SBA has suffered budget reductions to many programs over the past 10 years, leaving rural small firms in remote areas with few options for assistance. This is a particularly unfortunate outcome as impact studies of the SBDC program have been supportive generally as having a positive impact on new ventures (See, for example, Chrisman, Hoy and Robinson, 1985; Chrisman, Hoy, and Robinson, 1987; Chrisman and McMullan, 2002).

Another program that supports rural entrepreneurs is the Small Business Institute® program. Teams of college students provide small business owners with consulting reports to assist them in managing their businesses. At its peak SBI programs at participating colleges and universities assisted over 6,000 businesses in the U.S. at an annual cost of three million dollars as part of an SBA program that operated from 1972-1996. An advisory group of SBI Directors, the Small Business Institute Director’s Association (SBIDA), took legal control of the SBI program when it was eliminated by the federal government, and continues to operate independently of the federal government. The current SBI program consists of 120 programs in the U.S. In addition, some former SBI programs continue to operate as ghost programs providing consulting services although they are no longer affiliated with the national organization (Heriot and Campbell, 2002). The SBI program has also received favorable evaluations in the literature (Brennan, 1995). However, this program is restricted to four-year colleges and universities that may not be available to most rural communities.

### **Incubators**

Incubators offer another means of assisting entrepreneurs. According to the National Business Incubation Association (NBIA), “Business incubation is a dynamic process of business enterprise development. Incubators nurture young firms, helping them to survive and grow during the start-up period when they are most vulnerable. Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. Most also offer small firms shared office services, access to equipment, flexible leases and expandable space—all under one roof.” (NBIA, 2003). The NBIA reports that the number of incubators in America has grown from about 12 in 1980 to 950 in 2003 (NBIA, 2003). The growth and apparent popularity of incubators in the United States is testimony to the importance placed on intervention programs as a stimulus to economic prosperity.



The increasing number of incubators stimulated research studying incubators, the incubation process, and the rationale for creating incubators in a variety of settings. Research on incubators has emerged as one of the most topical debates in business schools, among business leaders, and by those formulating public policy over the past quarter century (Brandt, 1991; Sherman and Cappell, 1998; Bearnse, 1998). Incubators show some promise as a means of economic development in rural areas as the NBIA reports over thirty percent of all incubators in the U.S. are located in rural areas, although many of them tend to be adjacent to urban areas. A remaining problem is determining who will be the catalyst to initiate the process required to create an incubator. Culp (1990) and Sherman (1999), and the NBIA (NBIA Website) point out that it takes a considerable amount of time to create an incubator. The challenges of a rural location make this task even more daunting. Furthermore, creating an incubator is no assurance that it will work (Sherman, 1999). There are many challenges in developing and successfully running a rural incubator. Among the top five barriers for rural incubators serving rural clients were financing for companies in the incubators, entrepreneurs lack background in entrepreneurship, distance or access to networks, limited market potential, entrepreneurs who lack economic resources/business literacy/education (Adkins, Sherman, and Yost, 2002).

#### Models of Rural Economic Development

Wortman argues “there is no single approach for the support of rural entrepreneurship” (Wortman, 1990a, p. 229). Traditional attempts to stimulate economic growth by luring big businesses to rural communities have largely failed. Other programs aimed at creating local small businesses have similarly failed. Wortman contends that their collective failures may lie in the lack of interrelationships among the many types of programs, arguing “[T]here is little interrelationship between the many different types of programs that have been utilized to support rural economic development and entrepreneurship.” (Wortman, 1990a, 229) Each of the many programs and policies he describes operate independently. Programs, policies, agencies, banks, and other institutions are stretched too thinly to serve the needs of far-flung enterprises in rural areas. As Wortman points out, “Unfortunately the concepts of enterprise zones, SBDCs, rural incubators, education, and financial services have seldom, if ever, been combined at one time or one location” (Wortman, 1990a, 227-228).

Thus, he calls for a unified public-private approach whereby governmental agencies and private organizations work together to stimulate entrepreneurship in rural regions. Wortman (1990a) describes in detail what he calls Rural Economic Development Zones that would span as many as ten county governments, as shown in Figure 1. He goes into great detail to describe how to locate these REDZs in the most efficient manner and even explains how REDZ supporters might overcome political and institutional problems.

#### **Insert Figure 1 Here**

Fifteen years after Wortman’s discussion of how to develop rural entrepreneurship, Lyons (2002) points out that none of the many economic development strategies has been very successful in turning U.S. rural economies around. He points out, “Rural poverty for the past few decades has been, and continues to be, a nagging problem in the U.S.” (Lyons, 2002, 194).

Lyons (2002) and Wortman (1990a) argue that the most current response to these challenges in rural America is the development of strategies for encouraging “home grown” (Lyons, 2002, 194) businesses. The basic idea is that these “new ventures will provide jobs or at least self-employment; will remain in the areas where they were spawned as they grow; and will export their goods and services outside the community, attracting much-needed income” (Lyons, 2002, 195).

However, considerable debate exists as to how to best accomplish this daunting task. Lyons points out that the many initiatives employed in the U.S. are done so in isolation. While there are examples of attempts to coordinate entrepreneurial development on regional scales, Reynolds and White (1997) point out that most efforts to stimulate entrepreneurship in rural areas are highly fragmented. Lichtenstein and Lyons (1996) argue that in order to be successful in developing entrepreneurship, rural areas must overcome the barriers to successful entrepreneurship, specifically fragmented internal linkages (among community members) and external linkages (with other communities). Thus, the solution to the problem of rural economic development may be the creation of linkages among regional entities that combine their resources to support entrepreneurship.

Unfortunately, the frameworks provided by Wortman (1990a) and Lyons (2002) are so broadly described they beg the question of how might a rural community actually implement their ideas. Implementing Wortman's idealized REDZs requires a fundamental change in perceptions and attitudes about rural development and rural entrepreneurship. Indeed, he argues that local, state, and perhaps federal law would need to be amended to allow REDZs to form. Lyons (2002) argues that his recommendation for networks that build on social capital can be highly tailored to the situation. He specifically avoids providing solutions that he labels "cookie cutter" or "one size fits all" (Lyons, 2002, p. 198). We concur that both he and Wortman have separately captured the essence of a successful answer to the problems facing rural communities. While they use different terminology and approach the problems from different perspectives, they are essentially advocating a cooperative approach to rural economic development that attempts to stimulate the creation and sustainability of entrepreneurial firms. We believe this approach represents a good starting point, but believe that rural areas require something more concrete in order to actually apply what Lyons and Wortman recommend.

#### A Rural Entrepreneurship Framework

Analogous to the concept of organizational design developed by Mintzberg (1981), which proposes that all organizations consist of five basic parts, we propose that all rural economic development programs consist of the following basic components: networks of social capital, financial resources, educational resources, service providers, and infrastructure (see Figure 1).

#### Insert Figure 1 here

#### Social Capital

The first element of the framework is a network that has two important elements, vertical social capital and horizontal social capital (Lyons, 2002; Flora, 1998; Coleman, 1988). Vertical social capital represents the links within the community. Horizontal social capital represents the links among communities. It is through social capital in networks that economic development organizations access other components in the model that are not directly controlled by the organization.

The links in vertical social capital are important to gain the trust and therefore the support of the local rural community. Given the strong ties of the social structure of rural communities, these links should not be overlooked because the lack of awareness can severely hinder any economic development efforts. For example, Allen and Dillman (1994) observed a community development effort in a rural community, "Bremmer". The administrators of the program did not understand the process used by the community to make decisions. Further, these administrators did not know nor did they use local community leaders to gain backing for their program. The

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program failed because community members viewed the administrators as outsiders who did not understand the needs of the community.

Horizontal social capital represents links across communities. These links are necessary for access to regional resources and coordinated economic development efforts. In an era of budget cuts and global competition, linking up with other economic development efforts is of growing importance. A recent survey of economic development organizations found that 49% of the respondents were working with economic development specialists from adjacent jurisdictions (Economic Development Administration, 2007). These links are important because broad support across communities coordinate resources fills in local gaps in the components necessary for development efforts and thus increases the chances of successful rural economic development. This sharing of resources is central to Wortman's (1990) model of a REDZ

#### Financial Resources

The financial resources component in the model has two elements, the rural economic development program budget and access to financing for the businesses within the economic development program. Economic development programs are expensive because they must provide the necessary staff, space, and time for the efforts of the program to take roots and flourish. Access to financing for rural business has been found to a common problem for rural businesses (cites). It is one of the top five barriers for serving clients in rural incubators (Adkins, Sherman, and Yost, 2002).

#### Educational Resources

Educational resources are important component to rural economic development because a demographic of rural populations is low levels of education. Lack of education was one of the top five barriers in serving clients in rural incubators (Adkins et al., 2002). The owners need to have training and educational resources available so they can secure the necessary skills and knowledge. These resources are available through state universities, community colleges, SBDCs, and SBIs. If the local labor market needs additional skilled labor, educational programs can expand both the supply and skill level of local labor.

#### Service Providers

Access to accounting, financial, engineering, information technology, and legal services represents a resources that need to be established and then maintained overtime (Cammarata and Linder, 2004). Start up and small businesses need access to a variety of professional services that are critical to the survival and growth of their businesses (Wu and Young, 2003).

#### Infrastructure

The last component is infrastructure. Rural entrepreneurs need access to space, staff support, technology, and transportation. Startup businesses cannot either afford or find space with the necessary facilities to ensure the survival and then growth of their business. Neither can they afford employees to cover basic of staff support. Access to high-speed internet is necessary to for effective and efficient exchanges with suppliers and customers. Distance to markets both inputs and for outputs is a problem in rural communities. Access to transportation can mitigate this problem. Pulling together the components in this framework is vital for any economic development organization. One such organization that is embedded in rural communities and therefore has the social capital to pull together and access the various components necessary for rural economic development are the rural electric cooperatives.

This framework can be adjusted to fit a specific rural community. Using a checklist, these parts can be tailored or customized to fit the specific needs of local rural development efforts, i.e., what components are in place and what components need to be brought into place in order to offer a full configuration of the elements essential to rural economic development (see Table 1).

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We will present an example to demonstrate the components of the proposed rural entrepreneurship framework using a member organization of the Rural Electric Cooperatives.

Insert Table 1 here

Rural Electric Cooperatives

Most Americans take for granted the electricity, telephones, water and waste disposal services available to them. Yet, this was not the case as recently as 75 years ago. In 1932, only 10 percent of the nation's farms had electricity compared to 70 percent of urban dwellers (USDA Website, 2004). Modern utilities came to rural America through the United States Department of Agriculture (USDA) working with rural cooperatives, nonprofit associations, public bodies, and for-profit utilities.

In 1936, the Rural Electrification Act empowered the USDA to support rural electric utilities. The Rural Electrification Act of 1936 signaled the first big push to bring electricity to America's rural areas. The Act made available millions of dollars of loans to private, public and cooperative utility ventures through the creation of the Rural Electrification Administration (REA). Rural cooperatives—that is, private partnerships owned and controlled by the people they serve—emerged as the principal borrowers of REA funds. By the end of 1936, nearly 100 cooperatives in 26 states had signed loan agreements with REA. Loan guarantees made to rural cooperatives funded building electrical lines, generation, and transmission facilities.

Title V, Sections 501 and 502 of the 1936 Act address economic development. Section 501 of Title V authorizes the USDA to provide technical advice and assistance to borrowers utilizing the authority under section 312 to engage in rural economic development activity. Section 502 of Title V established a Rural Business Incubator Fund, its uses, eligibility, and funding. To implement its goals the federal government made long-term, self-liquidating loans to state and local governments, to farmers' cooperatives, and to nonprofit organizations. No loans were made directly to consumers. In 1949 the REA was authorized to make loans for telephone improvements; in 1988, REA was permitted to give interest-free loans for job creation and rural electric systems. By the early 1970s about 98% of all farms in the United States had electric service, a demonstration of REA's success.

In 1994, the REA was abolished and its functions assumed by the Rural Utilities Service (RUS). Today, USDA RUS helps rural utilities expand and keep their technology up to date, and helps establish new services such as distance learning and telemedicine (USDA Website). Currently, economic development has been transferred from the RUS to the Business Development Service, also an agency of the USDA (USDA Website; Stockton, 2004). The public-private partnership between RUS and industry results in billions of dollars in rural infrastructure development and creates thousands of jobs. Nonetheless, the gains in rural areas are not universal and are tempered by many failures that occur in other rural areas.

Today, 1,000 rural electric cooperatives serve 30 million Americans in 48 states—roughly 10 percent of the U.S. population<sup>1</sup>. Figure 2 below shows the extent of rural electric cooperatives in the U.S. Electric cooperatives own and maintain nearly half of all distribution lines in the country, which cover three-fourths of the nation's land area.

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Insert Figure 2 here

In order to better appreciate how electric cooperatives support economic development in a rural area, we need to appreciate the context in which they are being considered (Lyons, 2002). We chose a single location, Whiteville, North Carolina, as the basis for an example of an organization that fit the proposed framework. This electric cooperative is highlighted in National Rural Electric Cooperative Association material made available to the researchers. The researchers interviewed the general manager of the electric cooperative to gain a deeper insight into their situation. In addition, the Vice President sent us supporting material that documents in greater detail the importance of economic development through entrepreneurship.

Whiteville, North Carolina

The Brunswick Electric Membership Cooperative (BEMC) service area is in southeastern North Carolina, a region that has suffered economically in recent years due to shutdowns in local manufacturing and declining farm incomes. BEMC supports three business development centers through its Rural Consumer Services Corporation (RCSC) located in Winnabow, Whiteville, and Tabor City, NC. We focus on the Whiteville location.

The Whiteville location provides affordable, commercial space for new and expanding businesses. This location is a mixed-use incubator that supports professional, service, manufacturing or light assembly businesses. The facility also provides a supportive environment for entrepreneurs which includes business counseling, access to high speed Internet, light office equipment, secretarial support, general interior and exterior maintenance, and a shared conference room and training facility.

The roots of the Whiteville facility reach to 1989, when BEMC worked to develop partnerships and build a nonprofit business incubator facility in southeastern North Carolina. This was one of the first applications approved under a new program funded by the then-Rural Electrification Administration to stimulate economic development in rural areas in the U.S. BEMC tackled the project by setting up a spin-off corporation, the RCSC. The co-op financed RCSC through partnerships with a number of local and national entities, including the Rural Electrification Administration (now USDA Rural Development's RUS), the Farmers Home Administration—whose business, community and housing programs are now part of Rural Development—and the North Carolina Technological Development Authority. Further funding and other support came from local community colleges, local development organizations and local businesses and individuals. The first funds were used as seed money to open a Business Development Center in Whiteville, N.C., in 1991. Two more centers were later opened in nearby Winnebow and Tabor City using additional funding.

According to Chip Leavitt, CEO and General Manager of BEMC, the co-op minimized expenditures of members' funds. "The basic approach was for BEMC to serve as a catalyst for the project," he says. "Our investment was not in membership dollars, but primarily in staff and management resources to develop partnerships, pursue other financing sources and garner community support for the project" (NRECA, 2003, p. 29). BEMC provided a loan of \$128,000 to help finance the building in Winnabow.

RCSC is now self-supporting from rental income. Annual expenditures for the business centers total \$160,000, including management and technical support, maintenance, utilities, etc. Since the first center opened in 1991, the overall program has housed 32 businesses and helped create almost 800 new jobs.

Table 2 summarizes the financial resources necessary to make the Whiteville Business Development Center a reality. RCSC has not accomplished everything on its own. As

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researchers suggest (see, e.g., Lyons, 2002), they have partnered their efforts with public and private organizations to help create opportunities for small start-up businesses. The ongoing management of RCSC Business Development Centers is made possible by the continuing partnership between BEMC, RCSC and the local Small Business Development Center. Southeastern Community College provides on-site management for the Whiteville facility. The community college also provides business counseling services and entrepreneurial training programs (USDA Website, 2004).

**Insert Table 2 here**

The constraints that arise when trying to develop entrepreneurship in a rural location have been described in detail. Rural regions often lack the coordinated public-private arrangements needed to fulfill the incubation and assessment processes and lack the cross-institutional coordination to successfully encourage entrepreneurship (Lyons, 2002). Lyons (1999) argues that successful economic interventions take place only in “win-win” situations characterized by a number of elements: a shared sense of community among all participants, dynamic sponsorship based upon competitive pressures (the sponsoring agencies stand to gain when entrepreneurs are successfully fostered), knowledge and technology transfer, leveraging entrepreneurs’ capabilities and skills (through expert training and mentoring), and facilitated access to capital through a mix of public-private mechanisms.

The REC may or may not provide shared facilities for new venture businesses as was done by BEMC. However, the REC is the primary catalyst for economic development, especially for small firms in a rural area. The REC represents a tight fit with the framework because of the social capital and access to the components as noted earlier. The NRECA argues that, “Through partnerships, the whole is almost always greater than the sum of the parts. Cooperatives may not bring the extensive background in [community and economic development] that other partners possess. However, they have access to unique funding sources, a trust relationship with both residential and commercial customers and special knowledge of the community’s current and future power needs” (NRECA, 2003, 5). The RECs have a vested interest in the creation, growth, and prosperity of new business ventures that create jobs for the citizens in their region, their local members most likely include their own family, friends, and neighbors. As a part of the REC organization at the national level, they have access to regional and state leaders.

They have financial resources because they have access to large sources of funding through the USDA and the Rural Utilities Service for use in rural locations that is not available from other state or federal agencies. Table 2 illustrates their ability to use their social capital to access the financial resource through partnering with other organizations.

The RECs have the social capital to access local educational resources. In the case of the Whitefield facility, the Southeastern Community College provides on-site management for the Whiteville facility. The community college also provides business counseling services and entrepreneurial training programs (USDA Website, 2004).

The RECs have the social capital to access and attract local service providers. This is important given the low levels of education and although there are strong ties to family, friends and neighbors, there are weak ties to business contacts such as accountants, bankers, lawyers (Shields, 2005).

Finally, the RECs have the capability to provide for the infrastructure to support rural entrepreneurs. The Whiteville location in this case provided low cost commercial space for new

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and expanding businesses in the form of a mixed-use incubator that supports professional, service, manufacturing or light assembly businesses. The facility also provides access to high speed Internet, light office equipment, secretarial support, general interior and exterior maintenance, and a shared conference room and training facility.

### **Conclusion**

The framework illustrates that social capital represents the relationships and partnerships necessary to gain support and access the other components to the development of rural entrepreneurship. The framework and the checklist can be used to provide a map for local economic development efforts. Missing components would need to be brought in and coordinated with existing components to provide for a fully orchestrated program of rural economic development.

The example of the REC used to illustrate the framework provided evidence that RECs can serve as valuable organizations in rural entrepreneurship development efforts. This provides the basis for recommending that rural economic development leaders and policy makers use the RECs by either initiating a relationship or expanding on existing relationships with local REC organizations. This would provide a platform for the “unified public-private approach” proposed by Wortman (1990a). The framework can be used to guide future research on the barriers to and facilitators of the development of rural entrepreneurship. The framework is a step towards providing a unifying structure to rural economic development advocated by Wortman (1990a) now nearly two decades ago while providing more concrete maps as to how to customize the framework to fit with the circumstance of local rural entrepreneurship development programs.

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**Table 1**  
**Rural Economic Development Framework**  
**Check List**

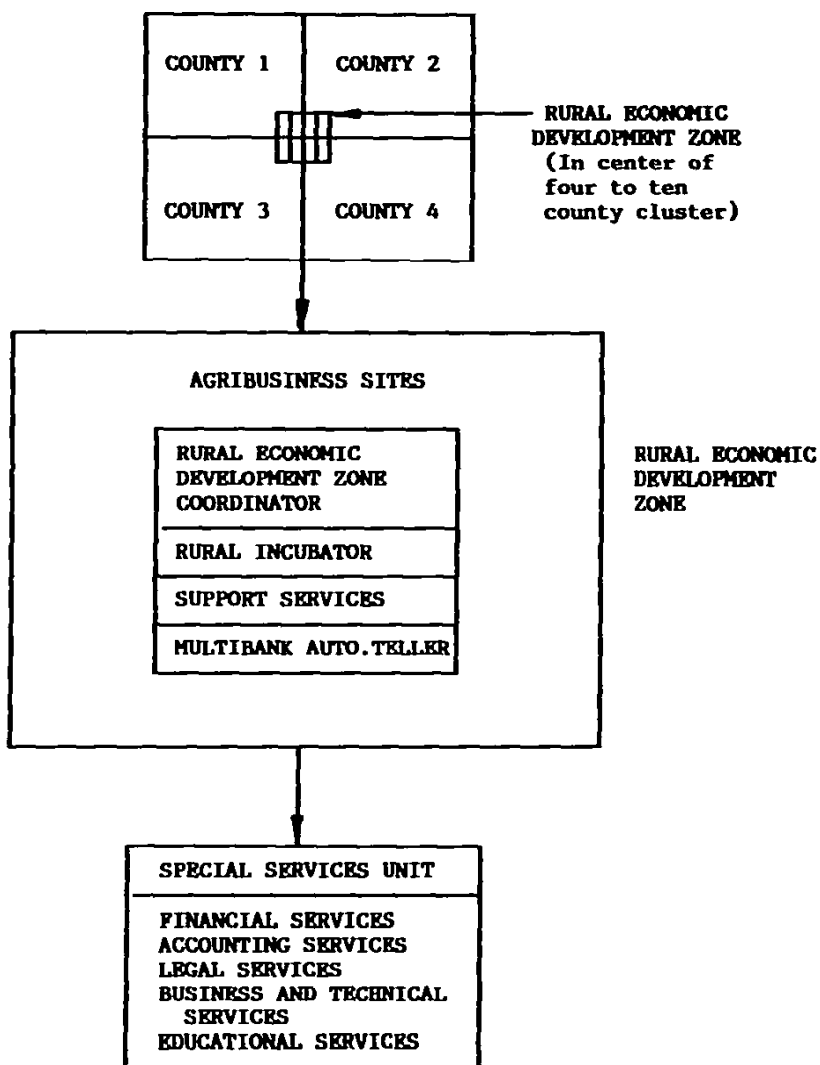
- **Social Capital**
  - Vertical social capital
    - ◇ Community leaders
    - ◇ Community base
    - ◇ Regional leaders
    - ◇ State leaders
  - Horizontal social capital
    - ◇ Adjacent community economic development agents
    - ◇ Adjacent community leaders
  
- **Financial Resources**
  - Access to financing for the foci businesses in the economic development effort
  - Operating funds for development agency
  
- **Educational Resources**
  - Community college system
  - State universities system
  - SBDC
  - SBI
  
- **Service Providers**
  - Accounting
  - Finance
  - Legal
  - Technology
    - ◇ Engineering
    - ◇ Information systems
  
- **Infrastructure**
  - Administrative
  - Building space and facilities
  - Internet
  - Transportation logistics

Table 2

Initial Funding of the Whiteville, NC Rural Electric Co-op's Facility.

<i>Source of Funds</i>	<i>Amount of Funds</i>
<b>USDA Rural Economic Development Loan (repaid)</b>	<b>\$100,000</b>
<b>North Carolina Technological Development Authority</b>	<b>\$100,000</b>
<b>North Carolina Rural Economic Development Center, Inc.</b>	<b>\$30,000</b>
<b>USDA Industrial Development Center</b>	<b>\$32,000</b>
<b>Columbus County, NC</b>	<b>\$32,000</b>
<b>Total Funds</b>	<b>\$379,000</b>

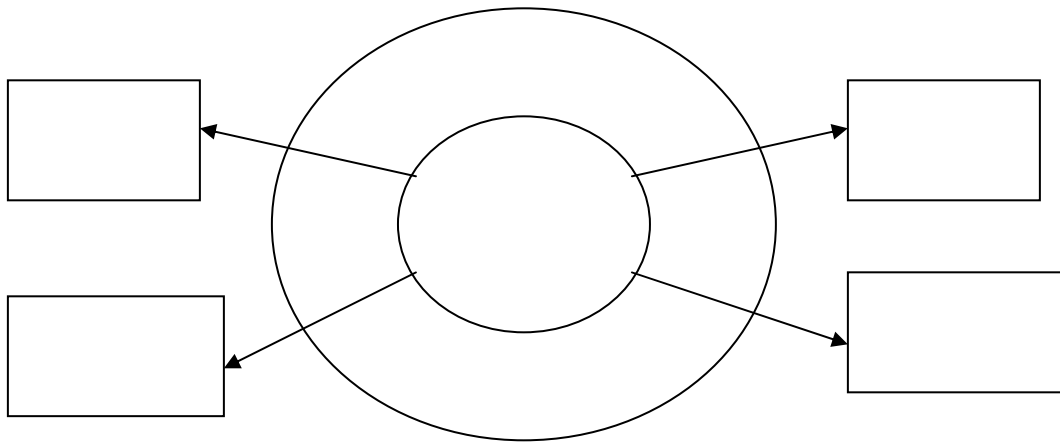
**Figure 1. Wortman's Rural Economic Development Zone**



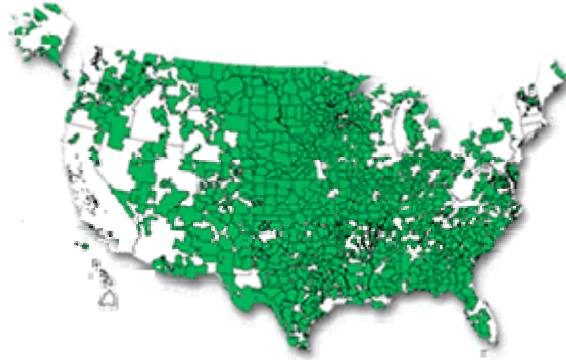
**Figure 2. Linked Rural Economic Development Zones to Support Rural Entrepreneurship.**

Source: Wortman, Max S. Jr. (1990a). "A Unified Approach for Developing Rural Entrepreneurship in the US." *Agribusiness*. May, Vol. 6, No. 3, pp. 221 – 236.

**Figure 2**  
**Rural Entrepreneurship Framework**



**Figure 3. Location of America's Cooperative Electric Utilities**



Source: National Rural Electric Cooperative Association Website  
([http://www.nreca.org/nreca/About\\_Us/Our\\_Members/Our\\_Members](http://www.nreca.org/nreca/About_Us/Our_Members/Our_Members))

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## **BARRIERS TO AND FACILITATORS OF MANAGERS' WORKPLACE LEARNING IN SMALL AND LARGE KNOWLEDGE-BASED FIRMS<sup>1</sup>**

**Wendy Doyle, Mount Saint Vincent University**  
**John G. Reid, Mount Saint Vincent University**  
**Jeffrey D. Young, Mount Saint Vincent University**

*Abstract* – This study is based on a series of face-to-face interviews with 79 senior and junior managers in 40 small and large firms in knowledge-based industries. Barriers to and facilitators of managers' workplace learning were identified by the participants and the results were compared across managerial rank and firm size. Results suggest that there are some generic barriers to and facilitators of workplace learning, but there are also those that are context bound. Implications of these findings for small business managers are discussed as well as directions for future research.

The notion of workplace learning has increased in importance (Sloman & Webster, 2005) given that members of organizations must continue to learn as environments change dramatically and quickly (Bard & Moore, 2000) and as technology plays an increasing role (Davenport, 2006). Indeed, learning is seen by some as a key to innovation and growth (Lin & Tremblay, 2003) and by others as a competitive advantage (Döös, Wilhelmson, Backlund, & Dixon, 2005; Eddy, D'Abate, Tannebaum, Givens-Skeaton, & Robinson, 2006). In addition individual learning has been positively linked to firm performance (Ellinger, Ellinger, & Keller, 2002).

Research on the workplace learning of many varied groups has grown in the recent past. For example, the workplace learning of various professional groups such as accountants (Erkut et al., 2003; Hicks, Bagg, Doyle, & Young, 2007), engineers (Erkut et al., 2003), nurses (Erkut et al., 2003; White et al., 2000), school teachers (Harkins, Evans, & Young, 2007), and lawyers (Hara, 2001) has been examined. Other research has focused on workplace learning in the for-profit sector (see for example, Ashton, 2004), the not-for-profit sector (see for example, Wallick, 2002), and the voluntary sector (see for example, Beattie, 2006).

Some have suggested that the focus of workplace learning research has been on large businesses not small businesses (Anderson & Boocock, 2002), despite the latter group's economic importance (Rowden, 2002). This situation appears to be changing somewhat with what appears to be an increased interest in the workplace learning of small business owners/managers (see for example, Murphy & Young, 1995; Cseh, 1999; Doyle & Young, 2005a; Doyle & Young 2005b; Doyle & Young, 2007; Fenwick, 2003; Fenwick & Hutton, 2000; Paige, 2002) and their employees (Coetzer, 2006; Rowden, 2002).

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However, small businesses have long been viewed as quite different from big businesses in a variety of ways, for example, social responsibility (Perrini, Russo, & Tencati, 2007), financial management (Welsh & White, 1981), and the nature of formal versus informal learning opportunities that are provided (Chaykowski & Slotsve, 2003). However, identifying the barriers to workplace learning in small and large and businesses is an important task Chaykowski and Slotsve (2003) and so is the identification of facilitators of workplace learning (Billett, 1995). These barriers and facilitators might well differ across the two business types given that human resource management practices in small businesses are, “not as developed and are less structured than in the large enterprises” (Fabi, Raymond, & Lacoursière, 2007, p.26). Further, there is a sense that barriers and facilitators might differ across those at different levels of the organizational hierarchy (see for example, Daley, 1999; Hicks et al., 2007).

Thus the purpose of this study is to identify barriers to and facilitators of workplace learning across two different levels of management with both large and small firms. More specifically this study addresses the following questions - 1) what are the barriers to learning encountered by managers in small businesses?, 2) what are the barriers to learning encountered by managers in large businesses?, 3) what are the facilitators of learning encountered by managers in small businesses?, 4) what are the facilitators of learning encountered by managers in large businesses?, 5) are barriers and facilitators associated with firm size?, and 6) are barriers and facilitators associated with managerial rank?

Initially an overview and definition of workplace learning are provided. The literature on workplace learning barriers to and facilitators of workplace learning are then identified and described. The methodology of the study is then presented followed by presentation of results and their discussion. The paper then concludes with a discussion of the implications of these results for practicing managers in large firms and owner/managers in small firms and for government policy and recommendations for future research directions.

### **Workplace Learning**

Workplace learning is a complex issue, is difficult to define and is one that transcends training and development (Matthews, 1999). Based on the work of Billet (1995), Cofer (2000), Day (1998), Lohman (2000), Matthews (1999), and Reio and Wiswell (2000) the following definition of workplace learning is used in this paper,

workplace learning is a process whereby people, as a function of completing their organizational tasks and roles, acquire knowledge, skills, and attitudes that enhance individual and organizational performance. This learning often occurs as a function of interacting with other people and can result from participation in formal and informal activities at the actual work site or at other locations.

This type of learning is quite different from non-workplace learning. Non-workplace learning is that which occurs as a result of daily living. For example, people can and do learn from everyday experiences in various social settings. However, that which is learned in these settings might not relate in any way to a person’s professional, occupational or organizational life.

### **Barriers to and Facilitators of Workplace Learning**

There are many barriers or limiters to formal and informal workplace learning. Barriers are simply those factors that prevent learning from starting, impede or interrupt learning or result in

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learning being terminated earlier than it might have been ordinarily. Billett (1995) identified six limitations to workplace learning including 1) acquisition of inappropriate knowledge, for example, people might learn about things that are counter to the needs of the organization; 2) lack of access to authentic task activities, i.e., learners must be exposed to ongoing, properly sequenced, challenging work; 3) lack of expert guidance, i.e., simply not having skilled and knowledgeable people available who can assist others with their learning; 4) reluctant experts, i.e., mentors and coaches might be reluctant to offer knowledge and guidance for fear of losing status or being replaced; 5) opaque knowledge, i.e., knowledge that is required of new learners can be difficult to access and understand; and 6) limitations of instructional technologies, i.e., requiring learners to transfer knowledge from its acquisition site to its application site.

White et al. (2000) examined the impact of managed care on the informal learning process of nurses. Nurses' needs for informal learning have increased and at the same time their learning context has diminished. Factors that inhibit the learning of the nurses included the following: separation from colleagues where valuable knowledge is exchanged, lack of time (caused in part by increasing acuity of patient care), multi tasking, and new technologies.

Lohman (2000) identified several inhibitors of school teachers' workplace learning including a lack of time for learning, a lack of proximity to learning resources (e.g., other teachers' classrooms, department offices, computers, and libraries), lack of meaningful rewards for learning, and limited decision-making power in school management. Lack of time for learning resulted from intensification of teaching jobs, for example, shifts to site-based management practices resulted in teachers having to participate more in management committees. Consequently, their time for asking questions, collaborating with other teachers, and sharing resources was reduced. A lack of proximity resulted in teachers being less able to exchange knowledge, experiment, and scan and gather information from outside sources.

Workplace learning can likely be improved by removing some of the above barriers, however, some writers have identified specific facilitators. Facilitators of workplace learning are those factors that motivate, sustain and/or enhance learning. For example, Billett (1995) has suggested providing new employees with structured experiences that are guided by experts in a manner in which requisite knowledge is made more explicit. Day (1998) reported that creating a work climate that was conducive to learning and sharing successes and failures and the learning generated from them enhanced workplace learning. Munro, Holly and Rainbird (2000) suggested that opportunities for job enlargement and job enrichment as well as flexibility in work routine and an opportunity to experiment are important enhancers of workplace learning. Increasing curiosity on the part of individuals could increase workplace learning (Reio & Wiswell, 2000). However, few studies have examined the barriers to and facilitators of small business owners/managers workplace learning.

One study of Australian owners/managers by Paige (2002) noted a lack of time, financial constraints, and prior unsuccessful learning experiences as barriers to learning. These factors, along with others such as course leaders who lacked credibility and inappropriate course content, have long been reported as barriers to formal means of learning such as training by owners/managers (see for example, Young, McRae, & Forrest, 1984; Young, 1983). A study by Fenwick (2003) of self-employed women in Canada suggested that innovative learning was fostered by challenge, variety, freedom, a social purpose for the product or service, and the sense

that the product or service was highly valued by others. One study of small business owners (Doyle & Young, 2003) considered barriers to learning. Time was the predominant barrier for nearly all of the participants. While many participants expressed this directly, others described the need to achieve balance in their lives. Course content and delivery issues were barriers as well and related to the lack of relevant courses, the lack of “real” businesspeople in formal course delivery and the cost effectiveness of formal learning activities. A lack of self-knowledge of learning needs and personal factors were also barriers. Doyle and Young (2003) also identified several facilitators of learning for small business owners. Formal learning opportunities were mentioned and included those provided by professional/industry organizations and post-secondary institutions. The main facilitators listed however were informal learning activities including learning with and from others. The others included other business owners, friends, suppliers, employees and customers. For some, entrepreneurial forums, networking opportunities and key mentors were helpful and for others, reading, travel and research were important activities. A majority of the participants discussed the benefit of not being solely responsible for learning and shared or delegated learning responsibilities. Personal attributes were also mentioned as facilitators of learning and included a passion for learning, being able to ask for help, the ability to learn from experience and being open to new ideas and a willingness to listen to others.

The above review of literature suggests that barriers to and facilitators of learning are numerous. Further, given differing contextual factors (Eraut, 2004), these barriers and facilitators might not be the same across different professional and occupational groups. What then are the barriers to and facilitators of formal and informal learning encountered by managers in small and large businesses in knowledge-based firms? Do these barriers and facilitators differ across small and large firms?

People at different levels in the organizational hierarchy have reported different barriers to learning. Novice nurses reported that several factors hindered their learning, for example, insufficient time, insufficient in-service opportunities, insufficient staff, and poor interpersonal relations with specific individuals. On the other hand, expert nurses identified systemic issues as greater hindrances to learning, for example, politics, resources, and organizational structure (Daley, 1999). In a survey of accountants, Hicks et al. (2007) reported that trainees reported different barriers to learning from those reported by managers and partners. For example, trainees tended to have more difficulty knowing what was required to complete their jobs than did managers and partners. Partners reported that few knowledgeable people were available to help them more so than did trainees and managers.

People at different levels in the organizational hierarchy have also reported different facilitators of learning. Novice nurses felt that having formal learning opportunities available (e.g., nurse educators, textbooks, and conferences) supported their learning. However, expert nurses felt that informal opportunities, for example, chances to informally discuss issues with colleagues, best facilitated their learning (Daley, 1999). Hicks et al. (2007) reported, for example, that having flexibility in work routine was a greater facilitator of learning for partners more so than for managers or trainees. Further, managers reported that there were formal, in-house courses available that helped their learning more so than did partners.

Do the barriers to and facilitators of workplace learning differ across managerial levels?

## Methodology

The methodology used in this study was qualitative and exploratory in nature and was intended to examine a number of case studies based to some extent on procedures outlined in Lofland and Lofland (1984). For example, there is a preference for direct, face-to-face encounters which will provide a richness of detail and there is a tendency to engage in analysis during the data collection phase. The case study is the preferred strategy in this research for several reasons: 1) questions of “what” “how”, and “why” regarding informal workplace learning are being examined, 2) the investigators have little or no control over events within the sites to be studied, and 3) events in a real-life context are the study’s focal point (Yin, 1984).

The study’s findings are based on in-depth interviews with 79 managers and/or owners/managers in 40 small and large knowledge-based organizations in the Halifax Regional Municipality (a major financial, government, retail, industrial, military, university and health-care center in the Atlantic provinces of Canada) participated. In each firm, two managers were interviewed, one a senior manager (president, vice-president or owner/manager or partner) and the other a junior manager (in this context one who was below the rank of vice-president). Of these 79 managers, 40 (1 in each of 21 large firms and 1 in each of 19 small firms) were senior managers or owners who presented senior management’s view of the issues. Also, of the 79 managers, 39 (1 in each of 21 large firms and 1 in each of 18 small firms) were junior, everyday managers who presented a managerial view of the issues. Thus comparisons between small and large firms as well as between senior firm managers and managers were facilitated.

A firm was considered large if it had more than \$5,000,000 in sales or more than 100 full-time employees otherwise it was defined as a small firm. Small firms, in addition to meeting the sales and full-time employee criteria were also independently owned and operated. The definition of knowledge-based firms (KBI) used here is based on the one provided by Statistics Canada in its 2002 Survey of Suppliers of Business Financing. Tier I firms represent “a narrow band of science and technology-based firms, comprising knowledge producers; and Tier II – a broad band of ‘high knowledge’ firms that, based on measures of research and development and knowledge worker inputs, could be considered business of innovators and high knowledge users” (p. 102).

Participants were selected from several sources, the 2004 Halifax Chamber of Commerce Business Directory, the InNOVAcorp list of firms (a provincial business incubator and financier), an ACOA (federal development agency) list of firms and the *Financial Post 500*. Names of firms that fit the KBI definition were selected and their websites were accessed. Key information in each website was examined by both authors and if both agreed that the firm did fit the KBI definition in use then a letter was sent to a senior manager at that firm soliciting the firm’s participation. In total 118 letters were sent between October 2004 and February 2005 with 40 (33.8%) firms agreeing to participate. Ultimately each firm was then contacted by the interviewer to arrange interviews.

The rapidly changing environment in which these knowledge firms operate suggests that the need for learning, i.e., acquisition of new skills and knowledge would be quite high. As such this sector seems an appropriate one to examine in terms of formal and informal learning.

A pre-test of the interview guide resulted in minor revisions to improve clarity. Interviews were then completed using an interview guide consisting of open-ended and closed-ended questions to determine selected demographic and business information as well as issues related to informal workplace learning. Interviews took approximately 60 minutes, were tape-recorded and transcribed verbatim. The interviews were then coded and subjected to qualitative

data analysis using Qualitative Solutions and Research Non-numerical Unstructured Data Indexing Searching and Theorizing (QST NUD\*IST) software.

### Results and Discussion

The managers who participated in this study represented a diverse group within the one industry type. Characteristics of participants are presented in Table 1 and characteristics of the firms are presented in Table 2. Not all managers responded to all the demographic or firm characteristic questions.

The average number of years of management experience of the 79 participants was 13.8 years. The number of years varied considerably with a range of responses from 1 to 42 years and a standard deviation of 8.2 years.

Table 1: Demographic characteristics of participants

	Number	Percentage
<b>Gender</b>		
Male	64	81%
Female	15	19%
Total	<u>79</u>	<u>100%</u>
<b>Position in firm</b>		
Senior Manager	40	51%
Manager	39	49%
Total	<u>79</u>	<u>100%</u>
<b>Age Ranges</b>		
15 to 24	0	0%
25 to 34	9	12%
35 to 44	37	47%
45 to 54	26	33%
55+	6	8%
Total	<u>78</u>	<u>100%</u>
<b>Education Levels</b>		
Less than high school	0	0%
High School	3	4%
Some university	4	5%
Certificate	13	16%
University graduate	59	75%
Total	<u>79</u>	<u>100%</u>

The business characteristics questions were answered in whole or in part by 40 of the 40 senior managers. Thirty eight senior managers responded to the question regarding the age of the firm, results indicated that firms had been in business an average of 25.3 years with a range from 2 to 100 years. The number of employees averaged 6543.8 with a range from 1 to 135,000 employees.

Table 2: Business characteristics of firms

Size	Number	Percentage
Small	19	48.0%
Large	21	52.0%
	<u>40</u>	<u>100.0%</u>
Sales Level		
Less than \$1,000,000	7	19.0%
\$1,000,000 to \$4,999,999	9	24.0%
\$5,000,000 to \$9,999,999	2	5.0%
\$10,000,000 to \$100,000,000	8	22.0%
More than \$100,000.000	11	30.0%
	<u>37</u>	<u>100.0%</u>

This paper has been guided by six basic questions – 1) what are the barriers to learning encountered by managers in small businesses?, 2) what are the barriers to learning encountered by managers in large businesses?, 3) what are the facilitators of learning encountered by managers in small businesses?, 4) what are the facilitators of learning encountered by managers in large businesses?, 5) are barriers and facilitators associated with firm size?, and 6) are barriers and facilitators associated with managerial rank?

To access barriers and facilitators of learning participants were asked about the kinds of things that prevent learning as well as those things that help learning. Table 3 presents a frequency distribution of factors that are barriers to learning by management group and firm size. Table 4 presents a frequency distribution of factors that facilitate learning by management group and firm size.

In total 104 barriers were provided by participants, but based on commonalities identified by the authors, these responses were reduced to five categories. For example, it is clear that insufficient time for learning is a barrier that extends across different firm sizes and across levels of management. Over half of the barriers mentioned were time related. “Time is our biggest killer”, “Being overworked and not having enough time...”, “...learning and development always end up taking a secondary role to just doing the things that you have to do on a day-to-day basis.” Participants also acknowledged that lack of time could be poor time management and “in many cases it is easier to do the things you’re familiar with than try to challenge yourself to do new things.”

Table 3: Frequency distribution of factors that are barriers to learning by management group and firm size

Barriers	SMLF* n=21 Number	SMLF* n=21 %age	MLF* n=21 Number	MLF* n=21 %age	SMSF* n=19 Number	SMSF* n=19 %age	MSF* n=18 Number	MSF* n=18 %age
Insufficient time	17	80%	15	71%	16	84%	17	94%
Personal factors	5	24%	3	14%	6	32%	1	6%
Costs too much	1	5%	1	5%	4	21%	5	28%
Inconvenient	0	0%	3	14%	0	0%	2	11%
Too much to learn	1	5%	1	5%	1	5%	1	6%
Other	2	10%	1	5%	0	0%	1	6%

\* - SMLF – senior managers in large firms; MLF – managers in large in firms; SMSF – senior managers in small firms; MSF – managers in small firms. Percentages are expressed in terms of the number of responses relative to the number of managers within each category.

In total 94 facilitators were provided by the managers, but based on commonalities identified by the authors, these responses were reduced to eight categories.

Support of the company for learning was seen as the key facilitator for senior managers in large firms to a greater extent than the other groups. Support of the company as expressed by a senior manager in a large firm, is “...a proper environment that encourages that type of learning...particularly if you’re looking at more formalized learning” and “...we try to get people to buy into it...We provide the learning in an atmosphere which they feel very comfortable with...” However, having the proper technology was seen as an important facilitator by the other three groups. Proper technology can be “high quality technological tools, high speed...fast computers, networks that work...” and “Easy access to people through e-mail, a good internal website or intranet...and most vendors...have excellent websites”. The technology facilitators tended to be e-learning tools if the definition of e-learning is broad enough to encompass informal learning strategies such as researching on the internet and communicating through e-mail, web conferences and discussions. Personal desire for learning, use of multiple learning methods, and flexibility of schedule were also mentioned to varying and lesser degrees as facilitators. The “other” category included diverse comments such as mandating learning, creating an expectation of lifelong learning, having clear information, and having information available in small chunks.

Table 4: Frequency distribution of learning facilitators by management group and firm size

Facilitators	SMLF* n=21 Number	SMLF* n=21 %age	MLF* n=21 Number	MLF* n=21 %age	SMSF* n=19 Number	SMSF* n=19 %age	MSF* n=18 Number	MSF* n=18 %age
Support of company	13	62%	5	24%	5	26%	8	44%
Technology	2	10%	6	28%	4	21%	4	22%
Availability of information	7	33%	2	10%	1	5%	5	28%
Interaction with others	2	10%	3	14%	3	16%	3	16%
Essential to job	2	10%	1	5%	5	26%	1	6%
Personal learning desire	0	0%	1	5%	2	10%	0	0%
Use of multiple learning methods	1	5%	1	5%	0	0%	0	0%
Flexibility of schedule	0	0%	0	0%	1	5%	1	6%
Other	1	5%	1	28%	2	10%	1	6%

\* - SMLF – senior managers in large firms; MLF – managers in large in firms; SMSF – senior managers in small firms; MSF – managers in small firms. Percentages are expressed in terms of the number of responses relative to the number of managers within each category.

In response to the first two questions, this paper has identified and categorized the barriers to workplace learning faced by managers in knowledge-based industries, some of which are common to senior and junior managers in large and small firms. Consistent with the work of

several writers (Daley, 1999; Lohman, 2000; White et al., 2000), the most important barrier for all four groups was insufficient time as it was cited by 71% of large-firm managers and 76% of their senior managers and for small firms by 84% of senior managers and 94% of managers. Indeed, over half of the barriers mentioned in this study were time related. Some respondents referred to poor time management skills and others to the difficulty of challenging themselves to do new things, still others simply felt overwhelmed. It may well be that there are generic types of barriers to learning that all managers must consider and time management might well fall into this group.

The development of time-management skills figures very prominently in management-skills-development texts (see for example, Whetten and Cameron (2007)). The barrier of insufficient time suggests that managers at all levels in both sizes of firms might have to develop better time management skills in order to learn and/or might have to increase the priority that is attached to learning activities. Improved time-management skills alone might not answer the barrier of insufficient time, but it might be a good start to enhanced learning.

In response to questions 3 and 4 an array of facilitators was identified, but the main facilitator of learning that was identified by all managers was that of company support for learning, however, this was especially so for senior managers of large firms. This facilitator included factors such as an encouraging environment and having people buy into learning. This finding is quite consistent with that of others in that commitment and support from upper management for learning activities are required if those activities are to be successful (see for example, Hare & McLeod, 2001; Mathieson, 2006). Technology, which was the second facilitator, could also be considered a component of support for learning from the company. Technology facilitators tended to be e-learning tools if the definition of e-learning is broad enough to encompass informal learning strategies such as researching on the internet and communicating through e-mail, web conferences and discussions.

Interaction with others was seen as a facilitator of learning. Indeed, learning as an interpersonal activity for managers is well documented (see for example, Brockman & Dirkx, 2006; Eraut et al., 2003; Murphy & Young, 1995). It may also be that there are generic types of facilitators of learning that all managers must consider and management commitment and support for learning and opportunities for interaction with others fall into this group.

However, there are those who have shown that context is a very important factor in workplace learning (Brockman & Dirkx, 2006; Eraut, 2004). Context becomes a relevant issue given that some barriers and facilitators appeared to be associated with firm size and managerial rank. Question 5 asked – are barriers and facilitators associated with firm size? The belief that the cost of learning activities was too high was a large barrier for junior and senior managers in small firms (21% and 28% respectively), but not such a barrier for junior and senior managers in large firms (5% for each group). Learning that was essential to the job was identified as a facilitator for senior and junior managers in small firms (26% and 6% respectively) than for senior and junior managers in large firms (10% and 5% respectively). The use of multiple learning methods was more of a facilitator for senior and junior managers in large firms (5% of each group) than for senior and junior managers in small firms (0% of each group).

Question 6 asked – are barriers and facilitators associated with managerial rank? The barriers of personal factors tended to be more dominant for senior managers in large and small firms (24%



and 32% respectively) than for junior managers in small and large firms (14% and 6% respectively). Personal factors include issues such as attitude, not knowing what's available, or not being interested in learning. This position might well be consistent with a position of having "made it" and thus learning could well be seen as less relevant than it is for those who are at lower ranks and have not yet "made it." This finding might also reflect the notion that there is a lack of learning opportunities for senior managers or perhaps they are unaware of those opportunities. In addition, inconvenience of learning opportunities (e.g., poor location, poor timing) was mentioned more frequently by junior managers in small and large firms (14% and 11% respectively) than for senior managers (0% for each group). This issue could well be related to power and autonomy in that those of a higher rank can more easily adjust schedules and other wise take advantage of learning opportunities than those at a lower rank can. The facilitator of "learning that was essential to the job" also appeared more frequently for managers in small firms (26% and 6%) than for managers in large firms (10% and 5%). This could well reflect resource differences in the two types of firms and the payoffs for learning for small firms might have to have greater and more immediate impact than learning initiatives in large firms.

One facilitator, "availability of information," was mentioned by senior managers of large firms (33%) and junior managers of small firms (28%), but was only mentioned by two junior managers of large firms (10%) and one senior manager of a small firm (5%). It is interesting to note that the effect of firm size is opposite for junior and senior managers for this facilitator. This finding is difficult to explain at this point and is worthy of further investigation.

The outcomes of the answers to questions 5 and 6 support the importance of individual context for learning. People operate in quite different contexts and there is a strong element of individuality in learning. For example, different learning needs have been examined (Doyle & Young, 1997; Murphy & Young, 1992) as have been differences in people's learning styles and strategies (Boström & Lassen, 2006), learning skills (Song, 2002) and learning preferences (Sadler-Smith, 1999). It is reasonable to conclude that there are barriers and facilitators to learning that are somewhat individualistic in nature. Consequently, any initiative to remove barriers to learning or facilitate learning must take into account individual learning contexts. As stated by Eraut (2004, p. 268), "Since many effects are quite local, this could mean developing an informal self-evaluation capacity in local places."

What is the role for governments and development agencies in the management development/learning activities of small businesses? Small business managers and senior managers were more likely to indicate insufficient time was a barrier to learning as well as costs too much. For senior managers the support of the company, learning essential to the job and technology were the top three facilitators and for their managers, it was support of company, availability of information and technology. Small businesses are more likely to have fewer human resource specialists available to assist with management development. In a large firm, a knowledge manager or human resource specialist could assist managers in planning and evaluating their learning activities. In small firms however the question becomes, who takes on this role? Perhaps, there is a need for a knowledge or learning consultant who could provide similar services to a number of small firms. Cost as a factor in small firms might relate to not knowing the full range of learning activities that are available as one respondent was commenting on the high cost of an executive MBA program. Another type of cost was also mentioned and that was the cost of not using new knowledge/skills because project budgets

didn't allow for new learning or innovation. Learning needs to be viewed as an investment as opposed to a cost. For small firms, the government and small business development agencies could play a role in assuming responsibility for being a distribution hub for information on formal and informal learning activities, providing financial assistance for small businesses' learning activities, providing services of a learning consultant to help determine learning needs, providing formal learning activities, and providing opportunities for informal learning activities such as networking opportunities, internships, and mentoring programs.

Given the preliminary and exploratory bases of this study, there are areas that need further research, for example, the issues of generic and context-laden issues should be more fully explored. In part this could be achieved by conducting a larger sample across several domains (e.g., manufacturing, marketing, services) and comparing results. In addition, a more fully developed set of barriers and facilitators could be developed, similar to that developed by Hicks et al. (2007). This list could be administered relatively, cheaply, quickly and easily and would allow for more detailed and statistical analysis.

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## ESTIMATING DEMAND POTENTIAL FOR SMALL BUSINESS WORKSHOPS

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### Abstract

*Many universities are trying to increase the relevance of their educational offerings. Many business schools have developed programs with a number of dimensions: 1) students working with local businesses, 2) professional development workshops or 3) self-help programs directed at local business markets. This study reports on a market study designed to evaluate potential demand for workshops that could be presented to local small businesses. In particular, the principal objective of the study was to determine the needs of local small businesses regarding interest in professional development workshops and to determine the optimal design and delivery of such a program.*

### Introduction

The discipline of business education is in a period of major and pronounced change. Those critical of traditional academic approaches have challenged academia to make significant improvements to increase the relevance of what is taught and to improve the quality of graduates. These challenges stem from more systemic critiques of business education in general. In recent years, academic programs in business have come under fire for being too passive, for possessing too many artificial boundaries between disciplines, and for being too instructor-directed. Often businesses, particularly small businesses, criticize business education as being unresponsive to its needs.

As a result of these criticisms, many business schools have developed programs with a number of dimensions: 1) students working with local businesses, 2) professional development workshops or 3) self-help programs directed at local business markets. A typical academic response has been student team-based consulting programs. In fact, a number of AACSB schools have programs that involve students in delivering some form of field-based consulting into their curricula. A number of leading MBA programs, including Duke University, University of Chicago and the University of Virginia, have recently instituted such programs (West and Aupperle, 1996). The students, as teams, work on company problems and are supervised by both faculty and business managers (Byrne, 1992). Undergraduates are often involved in similar programs through programs such as the Small Business Institute. The increased use of field-based consulting has enabled business programs to bridge the gap between academic learning and applied practice in organizations, which has enhanced the learning experience for students and provided a beneficial community service to firms.

These types of “out-of-classroom” programs have high value to both students and local businesses. Most research has indicated that they generate high levels of student satisfaction. Daly and Mitchell (1995) note that since business students tend to be more applications oriented,

they want more “skill building” from the curriculum, rather than mere “book learning.” They concluded that students enjoyed the hands-on nature of field-based projects and benefited from the opportunity to learn about the complexity of businesses. Similarly, a review by Weinstein, Nicholls and Seaton (1992) evaluated business client perception based on four dimensions—professionalism, knowledge, practicality, and overall value. Their study concluded that businesses had more favorable perceptions than unfavorable and asserted that such consulting activities improved their marketing activities by providing firms with objectivity and planning insight.

In addition to field-based consulting, another approach to achieving a business school’s mission is to offer professional development workshops or self help programs through a variety of delivery mechanisms. Such presentations could be presented to local small businesses by combinations of students, faculty members and professionals. This study reports on a market study designed to evaluate potential demand for workshops that could be presented to local small businesses. In particular, the objective of the study was to determine the needs of local small businesses regarding interest in professional development workshops and to determine the optimal design and delivery of such a program. The study was conducted in conjunction with the local chapter of the Service Corps of Retired Executives (SCORE) and was, in fact, part of a student field-consulting project.

### **Research Objectives and Methodology**

In order to effectively assess the local target market, the following major objectives were developed for this research effort:

1. Identify the local small business target market
2. Determine the target market’s ideal workshop characteristics
3. Determine the preferred marketing methods to reach this market

Primary research consisting of a focus group and mail survey was conducted to identify a typical local small business profile and to determine small business owners’ ideal workshop characteristics with respect to workshop content, context, and pricing. The primary research survey was conducted via a self-administered mail survey. The survey was designed as a single mailing and a business reply response format. Budget limitations prevented the use of multiple mailings or incentives. A qualified list of 6,144 local small businesses randomly selected was from the California Data Solutions (Cal Data) database. By the cut-off date, 314 mail surveys were returned, representing a 5.4% response rate.

### **Results**

The overall results based on the 314 usable responses are shown below:

Q1 Type of business



Type of Business	Responses	Percent
Service	141	46%
Retail	43	14%
Manufacturing	28	9%
Construction	25	8%
Wholesale	14	5%
Insurance	14	5%
Real estate	10	3%
Communications	9	3%
Finance	7	2%
Restaurant	5	2%
High technology	5	2%
Other	3	1%

Q2 The company was started

Years in Business	Responses	Percent
Over 20 years ago	94	30%
16-20 years ago	40	13%
11-15 years ago	57	18%
8-10 years ago	43	14%
5-7 years ago	35	11%
3-4 years ago	21	7%
1-2 years ago	20	7%
Less than one year ago	3	1%

Q3 The number of employees in company

Number of Employees	Responses	Percent
1-2 people	118	38%

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3-4 people	66	21%
5-7 people	42	14%
8-10 people	0	0%
11-15 people	19	6%
16-20 people	13	4%
21 more people	52	17%

Q4 “I have attended a workshop(s) to help my business in the last 2 years.”

Have Attended a Workshop	Responses	Percent
No	219	72%
Yes	85	28%

Q5 The workshop most recently attended was offered by

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Workshop Offered By	Responses	Percent
Trade association	39	45%
Corporate-sponsored workshop	12	14%
College or University	6	7%
Small Business Administration	4	5%
Small Business Development Center	3	3%
SCORE	3	3%
Economic Development Council	2	2%
Other	17	20%

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Q6 “I believe the experience was a good value for my money”

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<b>Value</b>	<b>Responses</b>	<b>Percent</b>
Good value (7)	35	37%
Somewhat good value (6)	24	25%
Somewhat good value (5)	20	21%
Neutral (4)	13	14%
Somewhat poor value (3)	0	0%
Somewhat poor value (2)	3	3%
Poor value (1)	0	0%

Q7 “If I could improve the workshop it would be:”

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<b>Area of Improvement</b>	<b>Responses</b>	<b>Percent</b>
More tailored to my needs	28	32%
Subject matter and/or content	25	28%
Convenience of location	20	23%
Price	16	18%
Times workshop offered	15	17%
Workshop presenters	15	17%
Group size	10	11%
Level of group interaction	10	11%
Workshop length: too long	8	9%
Workshop length: too short	3	3%
Other	4	5%

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Q8 “If I were to attend a workshop, the workshop topic(s) listed below would be most helpful in assisting me in running my business” (top three workshop preferences)

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<b>Workshop Topic</b>	<b>Responses</b>	<b>Percent</b>
Internet and Your Business	113	36%
Growing the Business	94	30%
Advertising & Promotion	88	28%
Market Strategy, Planning, & Research	88	28%
Computer Software Training	100	32%
Business Plan Development	71	23%
Sales Techniques	54	17%
Customer Service	42	13%
Import/Export	26	8%
Industry Specific Topics	39	12%

Q9 “I would most likely attend a workshop in the following type of format”

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<b>Workshop Size</b>	<b>Responses</b>	<b>Percent</b>
Seminar (20 or more people)	87	29%
Group (8-19 people)	142	48%
Discussion (3-7 people)	47	16%
Other	22	7%

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Q10 “I would like the workshop to last \_\_\_\_ “

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<b>Workshop Length</b>	<b>Responses</b>	<b>Percent</b>
More than one day	20	7%
8 hours (all day)	75	25%
4 hours (half day)	136	45%
3 hours	38	13%
2 hours	32	11%
1 hour	2	1%

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Q11 “The one day most convenient for me to attend a workshop is \_\_\_\_ “

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<b>Workshop Day</b>	<b>Responses</b>	<b>Percent</b>
Monday	36	13%
Tuesday	56	20%
Wednesday	64	23%
Thursday	30	11%
Friday	31	11%
Saturday	67	24%

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Q12 “The one time most convenient for me to attend a workshop is \_\_\_\_ “

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<b>Workshop Time of Day</b>	<b>Responses</b>	<b>Percent</b>
Morning	116	38%

Afternoon	55	18%
All day	49	16%
Evening	34	11%
No preference	49	16%

Q13 If I could have the desired format, length, day, time, and location as listed above, the most I would be willing to pay for a workshop is approximately (mark only one)

Willingness to Pay	Responses	Percent
\$35	69	22%
\$50	68	22%
\$75	59	19%
\$100	72	23%
\$150	24	8%
\$200	7	2%

Q14 “ In selecting a workshop, the single most critical deciding factor other than subject matter is \_\_\_\_\_ “

Critical Deciding Factor	Responses	Percent
Quality of workshop presenters	151	51%
Price	66	22%
Times workshop offered	45	15%
Convenience of location	16	5%
Level of group interaction	10	3%
Other	8	3%

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Q15 “ When seeking assistance in running my business, I most often turn to \_\_\_\_ “ (top three sources of information)

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Source of Assistance	Responses	Percent
Trade publications	117	39%
Trade associations	116	39%
Friends	114	38%
Business publications	96	32%
Consultants	71	24%
The Internet	38	13%
Small business organizations	28	10%
“How-to” books	54	8%
Newspapers	16	5%
Other	44	15%

Q16 “ The best way to reach me is \_\_\_\_ “ (top three preferences)

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Preferred Medium	Responses	Percent
Direct mail	219	72%
Fax	186	61%
E-mail	140	46%
Newspaper	38	13%
Radio	18	6%
Magazine	18	6%
TV	12	4%
Other	31	10%

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Q17 “ I would pay the following amount for a workshop sponsored by a local organization “

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Willingness to Pay	Responses	Percent
\$35	69	22%
\$50	67	21%
\$75	54	17%
\$100	62	20%
\$150	21	7%
\$200	6	2%

### Overall Summary of Key Findings

Most businesses included in the study are in the service and retail industries and have fewer than ten employees. The majority of small businesses have been in business for five years or more. These characteristics are consistent with the profile of the local small business market. Over one third of respondents turn to trade publications and/or trade associations when they need help running their small business. Less than 30% of small business respondents had attended a small business workshop in the last two years. Of these, most had been to a workshop sponsored by a trade association. Importantly, many respondents feel that the topics of these trade association and other workshops were not tailored enough to meet specific needs. There is a high perceived value, however, of the workshop most recently attended, with 86% of the respondents having a somewhat good to good perceived value.

The workshop target market is critical to consider in evaluating workshop design. A total of 86% of survey respondents have been in business for over five years. This implies the need for workshops on improving business operations of small businesses rather than focusing on business start up, specifically, pre-business and business plan workshops. The four most popular workshop topics are: “Internet and Your Business”, “Growing the Business”, “Advertising and Promotion”, and “Marketing Strategy, Planning and Research”. In addition, a good deal of interest was expressed in computer software training. Nearly one-half of respondents prefer workshops to last four hours, and a quarter of respondents prefer eight hours. The most requested workshop size is 8-19 people. The three most popular days of the week for workshops are Saturday, Wednesday, and Tuesday, in order of preference. Morning is the preferred time of day for a workshop. Most respondents are willing to pay no more than \$100 for their ideal workshop. The top three preferred media for contacting potential attendees would be direct mail, fax and e-mail.



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## Conclusions

Responding to the need to align academic programs with needs of the local business constituency, many universities have developed an array of student consulting and outreach programs. Although student projects and consulting (e.g., SBI programs) are more traditional, professional development programs present another potential area of application. This study found a high degree of interest by small business in workshops with the proper content, length, time of presentation, and cost. Thus, a real market presents itself to universities that choose to deliver the content using various delivery mechanisms. How to foster the active involvement of students in the delivery, while maintaining a perception of expertise, is a challenge to the educational institution. If successfully solved, this will benefit the university as well as the small businesses. Although the study was conducted within only one geographic area, care was taken to make sure that the sample was representative of the small business population in California. Thus, it is highly likely that the results of the survey may be generalized to many other areas.

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## **Assurance of Learning for Experiential Courses: A Proposed Model**

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### **Abstract**

This paper offers a model for responding to Association to Advance Collegiate Schools of Business' (AACSB) requirement for assurance of learning for experiential learning courses. The model's purpose is to assist faculty in analyzing and documenting student learning during the completion of experiential learning courses, and to provide faculty with a tool to improve the quality of the experiential learning.

### **Introduction**

On their website, AACSB states that "AACSB International accreditation assures quality and promotes excellence and continuous improvement in undergraduate and graduate education for business administration and accounting (2007; p.1)." The organization was founded in 1916 and began the accreditation function in 1919. The accreditation process is a voluntary, non-governmental review of institutions and their programs. To maintain accreditation, reviews are required on a five year cycle. The following is a synopsis taken from the AACSB website:

AACSB requires schools to use direct measurement methods to meet the standards of assurance of learning, as expressed through learning goals. Individual schools will determine their minimum expectation or standard as to what percentage of students must reach their determined level. While AACSB has not set any requirement in this area, a poor showing on student mastery of a learning goal would be a concern if not addressed in the development of curriculum to improve student skills in this area. Care needs to be given when group work is being used to demonstrate assurance of learning. Any class/project must be able to yield individual student performance data in order to be acceptable.

The AACSB standards have a twin emphasis on enhanced experiential learning and improved assurance of learning. AACSB has stated that schools must demonstrate what learning occurs for each learning goal that the school has established. This necessitates the establishment of defined learning goals and methods to measure the quality of learning which has occurred. This creates a challenge for those facilitating experiential learning courses. While classes such as student consulting programs seem to exemplify the goals of experiential learning, the need to determine strategies to measure what learning has occurred in these programs creates a challenge. The pros and cons of experiential learning are well documented in Michael Ames (2006) paper "AACSB International's Advocacy of Experiential Learning and Assurance of

Learning – Boom or Bust for SBI Student Consulting?” We use his work as our point of departure for this paper. Our objective here is to devote to or create a usable tool that will allow assurance of learning from an individual perspective in an environment of “dynamic group activity with blurred individual responsibility (Ames, 2006; p. 3)”.

Specific standards for Assurance of Learning were included in the current standards issued by AACSB. These standards evaluate how well the school is accomplishing their educational goals. It evaluates areas including how successful the students are at achieving the learning appropriate to the programs in which they participate and whether the knowledge and skills gained are appropriate for the earned degrees. The process also assists schools and faculty in evaluating and improving courses and programs (AACSB, 2007).

Standards set a level of accomplishment which all students are expected to meet or exceed. Standards are not necessarily reflective of high quality learning as they may be the minimal requirement. Individual student’s work is judged against the standard rather than against the work of other students.

### **Steps in Assurance of Learning:**

1. **Define Learning Goals and Objectives** - This first step is the development of a well defined list of learning goals which will demonstrate assurance of learning. Each program should have four to ten established learning goals. AACSB defines these goals as serving two purposes. The goals communicate the educational outcomes which students are working toward and they assist potential students in selecting programs which meet their personal goals. These goals vary by school as do the development and assessment processes for these goals. These goals should be translated into clearly defined objectives (AACSB, 2007).
2. **Align Curriculum with Goals** – The next step is determining where in the curriculum the learning addressed in each objective takes place. What coursework or learning experiences will help students to achieve these goals? Are they in specific courses or embedded throughout the curriculum or both (AACSB, 2007).
3. **Identify Instruments and Measures** – This describes how one will know that the learning goals have been met. Levels of acceptable performance must be defined for each objective. Two methodologies are generally used, namely rubrics and primary trait analysis (NEED SOURCE). To meet AACSB requirements, assessment programs need to generate data that provide a basis for evaluating the program’s learning objectives. While a carefully designed capstone project or similar requirement may accomplish this, generally schools find multiple methods are needed to generate the necessary data. The school must demonstrate that learning has occurred for each of the established learning goals (Bryan and Clegg, 2006). While AACSB does not mandate specific approaches to assurance of learning and encourages schools to develop these themselves, they do stipulate that assessment programs should include direct measures of learning and state that course grades are not program assessment measures. They also provide some sample approaches (AACSB, 2007). These include:
  - **Selection:** “The school may select students into a program on the basis of knowledge or skills expected in graduates of a degree program (AACSB, 2007; p. 65).”

- **Course-embedded measurement:** “Required courses may include learning experiences designed to provide particular knowledge or abilities that are specified in the school’s learning goals (AACSB, 2007; p. 66).”
  - **Demonstration through stand-alone testing or performance:** “Students may be required to demonstrate certain knowledge or skills as a requirement for graduation or at some other specific point of their degree programs (AACSB, 2007; p.66).”
4. **Analysis and Dissemination of Data** – The information gained from the assessment process must be analyzed and communicated to the faculty. Simply collecting the data, or even collecting data and completing a good analysis, is not enough. The information must be communicated to the faculty. Once this has been done, the faculty can begin working on improving the learning program (AACSB, 2007).
  5. **Use Assessment Data for Continuous Improvement** – The final step is using the data gathered for future improvement of programs. If a significant number of students failed to demonstrate competence on a learning goal, the school must prepare a response that includes changes to the course or course design to address the deficiencies. As part of this process, schools should consider if the learning goals are appropriate, whether the objectives need modification and if the measures are providing adequate and appropriate data for evaluation. (Bryan and Clegg, 2006; Kolb and Kolb, 2005)

Experiential learning courses and programs face a somewhat unique challenge in providing assurance of learning in that many of the accepted tools for other traditional programs can not be easily adapted for use in experiential learning programs. Tools such as testing can fail to measure the true value acquired from an experiential learning process (Ames, 2006). In response to this challenge, we have developed a model that we believe provides assurance of learning.

### **Experiential Learning Courses Model for Assurance of Learning**

This model provides assurance of learning during and after an experiential learning course. Items one and two provide the broad parameters of our approach first, and then we provide a detailed breakdown of the components.

#### **Summary of Requirements:**

1. **Journal:** This journal is prepared independently by each student. It includes responses to pre designed surveys given at select times throughout the experiential learning project as well as self reflective entries. To help ensure that students put forth the needed effort to produce useful data for analysis, students should be informed that part of their final grade will be based upon the organization and full completion of their journal. This helps provide individual accountability in a group environment. Again, we build upon Ames’s (2006) recommendations.
2. **Analysis/Score by Faculty Instructor:** At the conclusion of the experiential learning course, students will be required to submit their completed journal to the instructor. Using a rubric designed to measure the learning that has occurred during the course, the instructor will analyze and score the journal content. This score is not used in the final grading for the course. Rather, it is recommended that the journal component of a final grade be based upon the organization, effort and full completion of the specified requirements for the journal. Here, the rubric score provides a measure that learning has occurred.

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**Proposed Learning Goals for Course/Program:**

AACSB requires that learning goals are developed for the course/program. This initial step establishes the foundational areas for which assurance of learning must be provided. It is important to note that the development of learning goals for any course or program should stem from the school's overall learning goals. For our model, proposed learning goals for an experiential learning course are:

1. Each student must demonstrate an understanding of the steps necessary to develop and facilitate a consulting project plan.
2. Each student must demonstrate an understanding of the group collaborative process in decision making and project performance.
3. Each student must demonstrate an understanding of effective business communication methods to be used with the various stakeholders involved in a project (clients, team members, instructor).
4. Each student can recognize and conceptualize a complex issue into a clearly written summary.

**The Purpose of Journal:**

This will be the tool used to determine if learning has occurred. Evaluation of responses to the same/similar questions asked at different points will provide data on learning progression. Self directed entries will provide additional feedback on learning. See **Appendix A** for example of a Journal Requirements Outline to be provided to students. The journal is proposed to include the following:

1. **Standard Questionnaire** – Questions are designed to measure student's level of knowledge on relevant areas during various, pre-determined stages of the project. Relevant areas are derived from learning goals. During the first class meeting, the theory of the journal will be explained to the students. It is important to explain that the grade for the journal will be based upon organization and effort to provide complete answers. The correctness of responses will not be part of the student's grade. This will allow students to respond honestly based upon the facts they have at that time. We recommended that the initial questionnaire, if possible, be administered in a classroom environment very early in the program. This will prevent students from doing further research to provide the "correct" answers. The goal of this initial survey is to establish a measure of the knowledge the student brings into the program. If an in-person classroom survey is not possible or feasible, this could be done in an online test environment providing limited time for response and stating that outside resources should not be utilized, while emphasizing that the grade is not based upon accuracy of content. The same questionnaire should be given out 1-3 additional times during the project and at the end of the project. The questionnaire should provide validation that it was not changed after its original completion. Further, faculty review of these submissions can also provide feedback for faculty on areas which may require further communication or development thus offering additional insight for learning experience improvements. Analysis of these questionnaires will be used at subsequent reviews to measure that learning which has occurred. See **Appendix B** for sample Standard Questionnaire.
2. **Self-Directed Entries** – The requirement for intermittent responses to questions and observations of progress should be included at various stages of the project. These will provide further data on the learning experience for the student. Again, this data can also

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be used by the faculty member to further enhance or improve the learning experience for current and future students. See **Appendix C** for sample recommendations for Self-Directed Entries.

3. **Other Entries** –Throughout the program, the faculty instructor may add additional questionnaires or writing assignments as they feel needed or beneficial.

#### **Analysis/Score by Faculty Instructor:**

As determined by the school/instructor, the journal can be submitted intermittently throughout the project or only at the end of the project. We suggest three submissions. This will provide the faculty with two progress and one final measure of learning. It will allow the faculty member to provide students with further guidance, information or requirements for journal entries during the remaining time to help achieve the learning goals. Alternatively, an online journal may be utilized.

A rubric should be used by the faculty member for the particular course or program in scoring the learning. To add an additional level of objectivity, this analysis/scoring could be done by an individual unconnected to the course such as another faculty member. The rubric must be completed with the learning goals clearly in mind. **Appendix D** provides a suggested rubric based upon the previously provided learning goals. An electronic tool for entering rubric data is highly recommended. This can be developed in Microsoft Excel or similar program to allow faculty to enter scores while totals for each individual and overall statistics/reports for the class are automatically calculated. The development of a tool such as this will save significant time and can provide documentation of the process undertaken. In addition, it can provide the data needed for evaluation of program content and consideration of possible program improvements.

The rubric example (**Appendix D**) requires analysis and score of four variables for each learning goal. Data used for scoring will be obtained from journal entries including those submitted on behalf of the group (see Section 4 requirements on Appendix A). It is important to note that scores are to be given based upon individual performance and improvement which will include consideration of individual's impact on group's performance. Each variable will receive a score of 1-4. A score of "1" would reflect no ability or demonstration of understanding or progress in this area.

The summary reflects a requirement of 48 overall points (with a minimum of 10 in any learning goal) as the minimum level required for successful attainment of learning goals. While the overall requirement requires a score that reflects an average at the level of "Accomplished", scoring at the "Accomplished" level is not required for each individual area. The rationale is that exemplary success in some variables with a developing success in other areas would document reasonable overall assurance of learning for learning goals. A score of 48 would not be required until the end of the program. Scores for the interim review(s) would be anticipated to be in the "developing" range. Faculty should pay particular attention to areas which are not showing desired progress at interim reviews. Faculty should provide further input or tools to student(s) to ensure students meet the final score requirement of 48 at the end of the program.

#### **Utilizing Data for Future Program Development:**

Faculty should review scores as each program is completed. Any learning goal with an overall student average of under 12 would indicate a need for program improvement. Faculty should

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review the program to determine steps necessary to improve its content to a level where students will be able to master the variables.

### **Conclusion**

The AACSB has issued Assurance of Learning Standards in an effort to improve the quality of business education and to hold educators responsible for meeting specified learning goals. The implementation of these standards also provides an additional vehicle for faculty to evaluate the effectiveness of their programs and identify areas in need of improvement. While Assurance of Learning Standards appear to create an additional challenge for experiential learning courses and programs (Ames, 2006), methods can be developed to meet these requirements and the intended goals of these standards. We argue that the effort must be undertaken lest we suffer the risk that experiential learning courses will be dropped from the curriculum because measurement is perceived to be too difficult. The model outlined above is one method that would allow faculty to evaluate the learning that has occurred in these courses while improving the quality of the learning experience for the students.

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## INSTITUTION BUILDING IN REGIONAL CLUSTERS: A STUDY OF THE FINGER LAKES WINERY CLUSTER

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### **Abstract**

#### Introduction

This study builds on the growing interest in regional clusters amongst management scholars (e.g., Mesquita, 2007; Tallman and Phene, 2007). While this work, as well as scholarship in economics (Kaldor, 1972; Krugman, 1991) and geography (Markusen, 1996; Saxenian, 1994) has played an important role in explaining why economic activity is often spatially concentrated and the benefits that may accrue to co-located firms, the social processes that underpin cluster dynamics remain poorly understood. This study attempts to fill this void in the literature through an in-depth case study of the Finger Lakes wine cluster. Specifically, we examine two issues which we see as particularly important in explaining the emergence of successful clusters: 1) the construction of a shared identity among cluster members, and 2) the creation of institutions which guide joint action among cluster members.

#### Constructing Identity in Regional Clusters

Drawing on the Organizational Identity literature (Albert and Whetten, 1985; Gioia, 1998; Gioia, Schultz, and Corley, 2000), this study investigates the impact that cluster participation has in the identity of small businesses that belong to the cluster. In particular, the study investigates the role that the cluster's history and the various cooperating institutions have had on the emergence of a shared identity among the cluster members.

#### Institution Building in Regional Clusters

It is clear that economic activity in regional clusters is a socially embedded process that takes place within local institutional and cultural frameworks (Grabher 1993). In economics, regional clusters tends to be considered in the context of "innovation systems" which manage the interaction of production units with their environments (Dosi 1988; Malecki 1997; Kaufman and Todtling 2000), and which vary significantly between places (Antonelli 2000; Feldman 2000). Thus many of the factors that enable production units to harness knowledge are thought to be found in the regions in which they are located, rather than within production units themselves. The role of social institutions is considered to be particularly important because they underpin behavior by forming the boundaries for agents' options and choices through "situated patterns of meaning and action" (Hasselbladh and Kallinikos 2000 p.698). Yet little is known about the process through which these institutions are created and/or change over time. Drawing on recent developments in institutional theory, and particular neo-institutional theory, this study will examine how actors create and sustain the institutions that underpin jurisdictional advantage in regional clusters.



### The Finger Lakes Winery Cluster

With more than 100 wineries and annual wine production of over 100 million bottles, the Finger Lakes region is New York's premier wine producing location and is the largest wine producing region located outside of California, in terms of volume production (Wineries of New York's Finger Lakes). The eleven Finger Lakes are long, narrow and deep; some are longer than forty miles and deeper than 600 ft. The sloping hills and glacial soils conducive to draining provide favorable conditions for the growing of grapes.

More than half of the 109 Finger Lakes wineries were established since 1990. The wineries are distributed among four sub regions associated with the following four Finger Lakes: Canandaigua Lake, Keuka Lake, Seneca Lake, and Cayuga Lake. Each of these four sub regions has its own "wine trail" that attracts tourists for wine tastings and other activities associated with the wineries. The region specializes in Sparkling, Riesling, Pinot, Noir, and ice wines. Visitations to Finger Lakes wineries has increased dramatically with over 2 million visitations to Finger Lakes Wineries in 2003 and customers typically spending \$15 or more during each visitation. A large proportion (75-96%) of sales at "wine trail" wineries is sold in New York State even though only 10% of wine produced in New York stays in New York (New York Winery Survey 2007).

### The Current Study

Structured interviews with winery owners are being conducted. Twelve have already been conducted and by the end of November there will be 20 completed interviews. The results will be analyzed and reported at the Feb meeting if this abstract is accepted for presentation at the meeting.

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## A MULTIDIMENSIONAL TAXONOMY FOR THE CLASSIFICATION OF QUESTIONABLE SMALL BUSINESS ACTIONS

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### Abstract:

This paper examines a multidimensional classification schema for questionable small business practices (practices which would be identified as either OK or NOT OK). The paper addresses how, from one or more of four different perceptions, classification and redress of such practices might be approached. Through the use of four different perceptual views of these transactions, clarity is provided to the consideration of the various types of questionable behavior. Examples, particularly from small business situations, are offered.

### Introduction:

This paper is based upon two earlier works by the author, "A Schema for the Classification of Ethical and Unethical Behavior", (McCaskey, 1994), and "A Multidimensional Approach to the Classification of Questionable Small Business Practices". (McCaskey, 1999) Its root, however, lies in a national research study of the elderly victims of consumer fraud conducted from 1976 to 1978. This research, funded by the then Department of Health, Education and Welfare, resulted in a number of scholarly publications, but little, if any response on the part of the federal government to the issues facing the elderly.

Any discussion of ethical behavior in business can call upon a rather extensive and impressive literature. Indeed, one can even go back to the *Bible* and cite God, Himself, for the generation of one of the first guides to ethical behavior, in the *10 Commandments*. One common point of discussion in the literature is that of two basic approaches to deciding the morality of a particular action. This is the schism of *relative standards* (also known as situational ethics or speculative philosophy) or *absolute standards* (also known as moral idealism and moral revelation). (Lantos, 1986), (Brady, 2004a) Another distinction can be found in what is often referred to as the ethical frameworks of *teleology* and *deontology*. Where teleology is an ethical or moral reasoning framework that focuses on society and the net consequences that an action may have, and deontology is an ethical or moral reasoning framework that focuses on the welfare of the individual and uses means, intentions and features of an act itself in judging its ethicality. (Churchill & Brown, 2007) George Steiner and John Steiner in their text, *Business, Government, and Society: A Managerial Perspective*, devoted two chapters to the topic of business ethics beginning with a discussion of the *theory of amorality* and the *theory of moral unity*. They followed with a discussion of the major sources of ethical values (religion, philosophy, cultural experience, and law). They then turned to a review of principles of ethics over a 2,000 year span of thought (in alphabetical order: the categorical imperative, the conventionalist ethic, the disclosure rule approach, the doctrine of the mean, the ends-means ethic, the golden rule, the intuition ethic, the might-equals-right ethic, the organization ethic, the principle of equal

freedom, the proportionality ethic, the rights ethic, the theory of justice, and the utilitarian ethic). (Steiner & Steiner, 2003) Finally, Brady provided a list of 22 different studies of business ethics many with different definitions of ethics. (Brady, 2004b)

### **The Taxonomy:**

In both the nonacademic and academic world, there exists a type of error that, if it goes unrecognized, has the potential of leading to major misallocations of resources and effort. This happens when one term or word is used to group together and define a number of different concepts. Also, the error of believing that one has defined something merely because one has named it may bring about inconsistency in attempts to develop meaningful theory and workable solutions to related problems. Attempts at correcting the injustices of questionable business practices, what we were in our 1976 research referring to as fraud, appear to have fallen prey to this lack of a clear, definitive taxonomy. It is thus suggested here that a new, directed effort be made to more clearly delineate the dimensions of the concept. It is hoped that such an approach will better facilitate the classification of, understanding of, and perhaps solutions to, small business, ethics-related, problems.

A broad overview of questionable acts by small businesses suggests that there are at least four meaningful and useful dimensions, or orientations, from which such behavior might be considered. Such a classification effort obviously runs the risk of over-simplification. The tradeoffs in this limited approach are, however, recognized and most likely warranted. The added complexity of dimensions beyond four would outweigh the benefits to be gained in added explanatory power over those suggested here. These suggested four dimensions are:

1. The reactant's perception of the small business's actions as either OK or NOT OK,
- 1) The actor's (small business's) perception of its own actions as either OK or NOT OK,
- 10) The established legal precedence (if any),

The current, generally accepted, sense of society as to whether or not the small business's actions are OK or NOT OK.

Each of these dimensions, with the possible exception of the legal precedence, deals with the perceptions held by one or more parties relative to what the small business has done, or is doing. In describing these dimensions this paper might have used terms such as "legal-illegal" or "ethical-unethical", or perhaps even fraudulent-not fraudulent. However, we presently prefer to use "OK and NOT OK". This is done with the understanding that the reader will be inclined to substitute in his or her mind concepts that might be embodied in terms such as "legal", "fraudulent", "ethical", "moral", and "acceptable", or their opposites, where applicable.

There is also the issue of whether or not there are truly excepted ethical or unethical behaviors. This paper defers on the issue of absolutism versus relativism with the recognition that, in practice, it is the perception of the behavior as OK or NOT OK that is most likely determinant rather than whether the behavior is or is not "absolutely" ethical. Thus, the reactions of the parties to the transaction will depend not on whether or not the action is actually ethical/unethical or legal/illegal or ok/not ok, but rather the perception of the parties involved. Their perception of reality will shape their response(s).

### **The Reactant Dimension:**

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The reactant here might be a consumer or an employee or a supplier, etc. Within this dimension the reactant can sense that they have or have not been the victim of NOT OK behavior. This is a broad and subjective perception, perhaps rooted in dissatisfaction, or based upon a personally held belief of right and wrong, as well as the perception of the relevant law. It may or may not represent a conscious consideration of the small business's actions along this dimension. If, while others might sense "NOT OK" behavior, and the reactant remains unaware, it might be a reflection of ignorance, or a reactant who is not fully informed. An added consideration is the attribution of blame by the reactant for the perceived victimization. A person could perceive that they are a victim of a NOT OK act, but due to perhaps a strong sense of the righteousness of the doctrine of caveat emptor, or a weak self-image, attribute blame to himself or herself.

A simple OK/NOT OK classification scheme for the transaction, as perceived by the reactant, clearly fails to encode a great deal of the richness of this dimension. A more faithful representation of the situation would be measured along a continuum rather than by a dichotomous OK/NOT OK variable. However, even the inclusion of a simple OK/NOT OK measure of the reactant's perception adds clarity to the often traditional classification of the transaction by its legal consequences alone.

### **The Small Business Actor Dimension:**

In any transaction the small business actor will perceive their actions as either OK or NOT OK. This perception is held relative to three states of nature: their view of the status of the law governing their actions, their view of society's evaluation of their actions, and finally, their personal view of the act. A business may also sense the importance of each and every individual reactant, and thus could be responsive to the reactant's view of the transaction as well. The small business actor may feel that his or her own actions are: illegal but OK, NOT OK but legal, both illegal and NOT OK, or (as is most likely the case) both legal and OK. The small business actor's perception may or may not correctly reflect the states of nature within the other dimensions. However, their perception is of major relevance to the form of corrective action, if any, which is best suited to the situation. Often a small business is no more than an individual transacting business in the marketplace. Other times a small business is an organization, with established policies that govern the behaviors of its representatives. Thus, the actual transaction may reflect the personal perception of the individual, or individuals, representing the small business in the transaction, or just the organizational policy.

### **The Legal Dimension:**

The United States, having its historical ties to England, is governed by common law (with the exception of the state of Louisiana, which is historically based upon the French civil system). Under a common law system the law is not only legislated, but is subject to interpretation and the rule of precedence. It is clear that actions may be legally defined. Often, however, this classification may be under dispute, or in a "gray area" which is open to disagreement. The existing laws may also be lacking in their representation of the current, generally held, sense of right and wrong. Thus it is suggested here that laws may be subject to question as to their applicability under currently held standards. Society, due to its dynamic nature, is constantly evolving new laws and interpretations of existing laws to keep pace with current thinking, but a certain lag in the process is inevitable. Such a lag would possibly result in the legal definition

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being unclear, changing, or at least differing from that held along any or all of the other dimensions being considered here.

### **The Societal Dimension:**

The final dimension proposed for the inclusion is by far the most evasive. While there would appear to be some agreement about the extremes that might exist on a continuum from society's view of OK to NOT OK transactions, it is when one leaves the extremes, that difficulty is encountered. Any attempt to classify actions as OK or NOT OK along the dimension of society's perception of those actions is subject to severe criticism. The problem lies first in who or what speaks for society. However, beyond the difficulties in operationalization of such a measure of perception, the mere recognition of its existence, and the sense that it might be possible to say that society views any specific action as OK or NOT OK, is sufficient justification for the theoretical inclusion of the dimension. Such societal perceptions are perceived by many to be, like their legal counterparts, dynamic and subject to change. This dimension represents a collective sense of whether or not the alleged small business actor is (or should be) guilty of NOT OK behavior.

### **The Classification Taxonomy:**

Given the four dimensions loosely introduced above, and the rather simplistic possibility that actions might be perceived along each as either OK or NOT OK, there exist 16 different Cells which might be shown within a 2x2x2x2 matrix. (See Figure 1) For a brief demonstration of the potential benefits that might accrue from the use of the classification schema, we will consider the Cells individually.

Cell 1: This Cell describes what is expected and hoped to be the most populated Cell, one representing the largest group of transactions -- the normal legal circumstance where all parties are satisfied, at least on the question of OK/NOT OK. Here no corrective, educational or punitive actions are warranted. This Cell represents where most small business transactions, in particular, can be found. Small businesses often know, and are better known by, their customers, employees and suppliers than large businesses. Often small service-based businesses are individuals who form fairly close relationships with their customers. The relationship-bond between the small business owner and the customer or client is thus often a personal one. This type of personal relationship does not lend itself well to dissatisfaction with the business exchange.

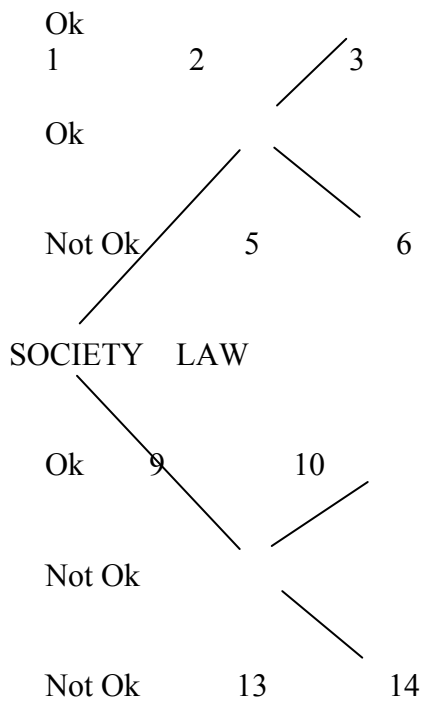
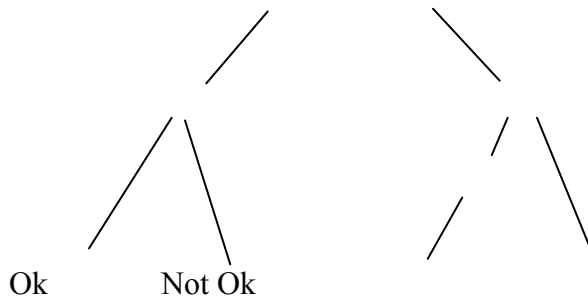
**Figure 1:**

REACTANT

Ok Not Ok

SMALL BUSINESS  
ACTOR

Ok Not Ok



4			
7	8		
11	12		
15	16		

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Cell 2: Here only the specific small business actor recognizes or perceives his or her actions as NOT OK. The reactant is either satisfied or unaware of anything questionable, the law considers the actions as legal, and the small business actor is generally considered to have acted within societal moral grounds. The small business actor here is either aware of facts not known to others, or is sensing groundless guilt. If the former is the case, better monitoring may be needed of the activity. If the latter is the case, clearing of the air to allay the small business's actor's anxiety may be in order. A common example here might be overpricing, and as a result, a larger than traditional profit. This could be a classic case of "caveat emptor" or buyer beware where a better-informed customer might recognize a higher than usual price.

Cell 3: The reactant perceives the small business actor's actions as NOT OK, but the small business actor does not. The actions are not illegal, and also do not violate the generally accepted moral sense of OK/NOT OK. This Cell would generally be categorized as a groundless complaint. Care should be taken, however, since nonmonetary costs, such as frustration, anger and time are incurred by the reactant, and possibly the small business actor, in the complaint process. If the reactant internalizes these costs, thereby attributing blame partially or wholly to themselves, the quality of his or her life may be effected as a result of a transaction others around them perceive as quite normal. Unhappy or dissatisfied reactants tell far more people of their dissatisfaction than happy, satisfied, ones. The failure to effectively satisfy the dissatisfied can be particularly costly. That is why many small businesses have a sign above their door that reads, "the customer is always right."

Cell 4: Here the reactant perceives the transaction as NOT OK, but this time, the small business actor agrees. However, the actions are legal and socially acceptable. Here, once again, this might be taken to suggest privy information or misinformation with the possible need for clarification. It may also be a case where society and/or the legal system have not yet recognized particular actions as questionable. The reactant, if dissatisfied, may complain, and their actions may lead to new awareness and new laws. This is a situation where we often see "out of court" settlements, with no admission of guilt, to avoid the possible bad publicity, or the possibility of an eventual court loss, or perhaps even new legislation in response to consumer complaints.

Cell 5: The small business actor has violated society's sense of right and wrong, and yet feels that the action was OK. The reactant does not recognize or perceive that he or she is a victim, or else is satisfied with the outcome of the transaction. The law does not consider the small business actor's actions as illegal. In this instance the legal system is out of step with the generally held view of society. This Cell may call for a new law or interpretation of existing laws to protect the reactant -- subject to the right of the small business actor to a full hearing on their position. This is the case of advocacy on behalf of an unaware or uninformed reactant. To bring the victimized reactant, the small business actor, and the legal system into compliance with the societal view perhaps requires education and lobbying. However, as noted, this is also a political process, and as such, should provide here for adequate opportunity for the small business actor to make their case in defense of their actions.

Cell 6: Here the small business actor has violated society's sense of right and wrong, and recognizes the action as NOT OK. The reactant is either unaware or satisfied with the transaction. The law does not reflect the generally held societal concept of a NOT OK transaction, and should most likely be changed to do so. Here, however, unlike in CELL 5, the small business actor's recognition of his or her actions as NOT OK may preclude at least their moral right to a hearing.

Cell 7: The reactant perceives the small business actor's actions as NOT OK, but the small business actor disagrees. The actions are legal, but the present law does not reflect the generally



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accepted societal position. This is a situation which calls for an adjustment in the law to reflect the society's will, but where unlike in Cell 6 above, the viewpoint of the small business actor should be given a full hearing to assure equity. The small business actor here believes the present legal position on the transaction is correct, and would seek protection under the law. But, the small business actor may be well advised to consider the response offered in Cell 3 ... "the customer is always right."

Cell 8: The reactant and the small business actor both perceive the small business actor's actions as NOT OK. The actions are also viewed as NOT OK under generally accepted societal standards, but the law does not recognize them as so. This situation calls for new legislation or reinterpretation of existing laws.

Cell 9: This Cell bears somewhat of a resemblance to Cell 8, however, in this Cell all parties agree that the law is incorrect in its interpretation of the small business actor's actions as NOT OK. This may well represent the case of a "black-market" sale. Here the law must be examined and, as a result, be brought into line with the views of the reactant, small business actor, and society in general.

Cell 10: Here the small business actor perceives their actions as NOT OK, and the law agrees. The reactant and society in general perceive the small business actor's acts as OK. This situation seems to be fairly unique or rare in that the courts and legislatures do not reflect either society or the reactant in their interpretation of the small business actor's actions. The small business actor may be guided by a strong belief in the sanctity of the law as it governs their actions.

Cell 11: The reactant perceives the small business actor's actions are NOT OK, but the small business actor view and the accepted view of society is that such acts were OK. The reactant, however, has the law on their side. Here the small business actor is a potential victim due to a law possibly being in need of revision. While this may not be that common, small businesses may often feel put upon and take this position. This may lie at the heart of the complaint that there is too much regulation of business.

Cell 12: This may well be a very populated Cell. Here, the reactant, small business actor, and the law all recognize the transaction as being OK, but the generally accepted morals, or the sense of society, does not. Here again, we find in this Cell a "black-market" transaction, where external forces have resulted in the parties knowingly becoming involved in what many may view as an improper or NOT OK transaction.

Cell 13: The small business actor and the reactant are satisfied that the small business actor has been OK in their dealings, but society, properly reflected in its laws, has said it was NOT OK. This may be a fairly empty Cell, but might be seen to represent the so-called "victimless crime" type of transactions.

Cell 14: In this Cell only the reactant does not recognize the actions of the small business actor as NOT OK. Here, in a classic case, the reactant is most likely in need of protection from the small business actor.

Cell 15: The reactant perceives, and the law and society agree, that the small business actor's actions are NOT OK. The small business actor, however, does not agree. They may lobby or advertise to the general public to change the views of the other parties relative to their actions, or be considered as groundless in their complaints against the punitive actions they face.

Cell 16: Everybody agrees that the actions of the small business actor are NOT OK. This is the classical case of criminal action on the part of the small business actor, and action where prosecution is clearly warranted. However, It is the possible tendency or temptation to loosely classify all transactions not found in Cell #1 as being in this Cell that initially motivated this classification schema.

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**A Final Comment:**

Each of these 16 Cells is unique, and contains a possible state of nature relative to the small business actor's actions. In all but one Cell, wherein the transaction is viewed as OK along all four dimensions, the person or persons within one or more dimensions perceive the transaction as being NOT OK. Individual Cells suggest, in many instances, courses of action to redress the perceived problem. These corrective measures vary from Cell to Cell demonstrating one value of the classification schema. Thus the clarity gained from the use of the classification taxonomy can be helpful in lending direction to discussions of ethical and unethical behavior.

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**MEASURING WEALTH GENERATION IN EARLY-STAGE ENTREPRENEURIAL  
ORGANIZATIONS: AN ALTERNATIVE TO THE CAPITAL ASSET PRICING MODEL**

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Robert Lussier, Springfield College**

**ABSTRACT**

*There is no generally accepted measure of wealth created by new ventures as most early stage firms do not have positive cashflows and discount rates estimate-able with sufficient accuracy as required by the Capital Asset Pricing Model (CAP-M). Through regression analysis of organizational economic value as assessed by 145 CPAs, this research supports using a Validated Nascent Organizational Structure Sequence (VNOSS) model as an improved alternative to CAP-M in establishing the perceived economic value of early-stage entrepreneurial firms. Implications of the results and bearings on further research are discussed.*

**INTRODUCTION**

Nominally, entrepreneurs start business ventures to generate economic wealth. To adequately study wealth creation, it must first be measured. The Capital Asset Pricing Model (CAP-M) is commonly used to estimate the economic value of assets that produce positive cashflows. Although expected cashflows and expected discount rates can be used, there exists serious doubt that a CAP-M evaluation of very new firms is sufficiently accurate because of the margin of error in prospective cashflow estimation and the fact that CAP-M mathematics are extremely sensitive to the accuracy of inputs (Smith & Smith, 2000). More importantly, there is no accepted method to produce an accurate discount rate, as required by CAP-M.

Henceforth, the key questions not answered in the literature become how can nascent firms be evaluated without using cashflows or discount rates? What are the characteristics of economic growth as these firms grow and in what period are the rates of return on invested capital generally highest? Such questions and answers are pertinent to entrepreneurs, their investors (banks, angels, and venture capitalists), managers, consultants, researchers, and academics interested in new venture wealth creation.

This exploratory study examined a Validated Nascent Organizational Structure Sequence (VNOSS) (Fiore & Lussier, 2007), an early-stage organizational structure model for use as an improved alternative to CAP-M in establishing the perceived economic value in entrepreneurial firms. It is hypothesized that the very structure of the organization, and growth in that structure is itself, a possible indicator of firm value.

**LITERATURE REVIEW**

Entrepreneurs and financiers want to know their chances of successfully creating wealth, and there is a need for better measures (Lussier & Pfeifer, 2000). Minniti and Bygrave (2001) stated that "Our entrepreneur wishes to maximize the subjective expected discounted value from his choices consistently with his intent" (p. 29). Deeds, DeCarolis and Coombs (1998) stated that, "market value added is a particularly appropriate measure of entrepreneurial performance

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because of its focus on wealth creation, which is the essence of entrepreneurship; the Generally Accepted Accounting Principles (GAAP) are inadequate measures of entrepreneurial effectiveness, as it is apparent that accounting-based measures of performance fail to accurately reflect the amount of shareholder wealth being created by the firm”.

Organization structure is the result (the legacy), and the tool (used to capture or harvest value), of the entrepreneur (an economic agent). Since the purpose of the entrepreneurial process is value creation, the process could be defined and measured in terms of value output, or more accurately, the extent of economic value created. Hence it is proposed that organizational structure is an alternative indicator of value of the firm even if there is not current cashflow. Organizational structure may be a measurable alternative to these predecessor factors (Fiore & Lussier, 2006). Since entrepreneurship is the building of the new organization, important questions arise; what is the best and most appropriate way to conceptualize the construct of economic value and secondly, in what manner can emerging, entrepreneurial economic value be measured?

### **The Capital Asset Pricing Model (CAP-M)**

Normally, the economic value of a capital asset can be estimated by the Capital Asset Pricing Model (CAP-M). The CAP-M approach is such that the price (present value) of an economic asset can be derived by the application of a risk adjusted discount rate ( $k$ ) to expected future cashflows.

Deeds et al. (1998) outlined the use of cashflow for evaluation purposes. The basis for Market Value Added begins with the concept of free cash flow (FCF) first developed by Modigliani and Miller. Since a new entrepreneurial organization is an economic asset, the CAP-M is used to evaluate its worth or value. Key factors required for the assessment of economic value of an organization are forecasts of the expected FCF, the expected growth rate ( $g$ ) of the FCF, and the appropriate discount rate ( $k$ ) for the time value and riskiness of those future cashflows.

A critical question now arises as to whether the application of expected future free cashflows, beta coefficients, risk correlation indices, and CAP-M derived discount rate is appropriate for “entrepreneurial” situations? Can the CAP-M be accurately employed before cashflows exist? Since creation of economic value is the objective of the behavior; these are important questions for entrepreneurs, investors, and for speculators. Smith and Smith (2000) summarized the controversy; “Is CAP-M the correct description of the rate of return investors require for waiting and for bearing risk? In particular, is it the correct description of the required rate of return for investing in a new venture?” (p. 249). Similarly, Harper (1993) stated, “Considerable controversy surrounds the choice of the discount rate used to capitalize earnings of cash flows...” (p. 22). Fama (1996) warned, “...with perfect certainty and perfect capital markets, pricing by discounting has an airtight economic story. The market value of a future payoff is its present value calculated using 1-period simple interest rates (e.g., Fama & Miller). In a world of uncertainty, the rigorous justification for estimating values by discounting expected payoffs with CAP-M ... expected 1-period simple returns is fragile” (p. 426). Clearly, there is nothing certain about the “expected returns” of entrepreneurial ventures.

Hence, we agree with the many authors noting that for the emerging or pre-operational firm, the inputs of cashflow and risk-adjusted discount rates are indeterminate and gross estimations. CAP-M is an important tool for economic evaluation but the model was not developed for “high-uncertainty” applications such as new firms. These facts along with

recognition of the sensitivity of the CAP-M evaluation to assumptions and inputs lead to a proposal that the accuracy of any economic evaluation of new firms is doubtful. These conclusions lead to the proposal that an appropriate indicator for economic value may be the structure of the organization itself or the sequence of change in that structure. Hence, this research correlates assessed economic value based on the organizational structure of an emerging organization.

## General Findings From The Literature

General findings, based on the literature review, are as follows:

1. An episodic stage model of early organizational development has yet to be fully developed in the organizational development or entrepreneurship literature.
2. CAP-M may not be the most appropriate analytical tool for the economic evaluation of nascent organizations.
3. Many authors refer to “take-off” points in a new firm’s early life, implying that one or more growth stage(s) may produce “unusual” or “disproportionate” amounts of wealth.
4. No known study specifically points to a stage of organizational growth (if any) that signifies sustainability.
5. No known study has specifically linked the emerging economic value of an organization to its very early or nascent hierarchical organizational development.

## **A Verified Nascent Organizational Structure Sequence (VNOSS) Model**

A model of entrepreneurial organizational structures was required in order to test the relationship of economic wealth creation on organizational structure. Previous research by Fiore and Lussier (2007) indicated that there are general standard stages of early organizational growth. Their proposed Nascent Organizational Structure Sequence (NOSS) model was statistically tested resulting in a Verified Model. The “Verified” or refined model was termed “VNOSS” after refinement. The VNOSS model is not contributed as the only possible entrepreneurial model, simply one of many possible archetypes. The episodic, early-stage organizational-growth model is forged on a behavioral, resource exchange paradigm, centered on the entrepreneur as a prime economic agent. The model is presented in Figure 1. Below is an explanation of each of the 9 stages in the VNOSS model.

1. The Entrepreneur (E) is in the conceptual or thinking stage about the business.
2. The Entrepreneur seeks (A) Advice and knowledge. A formal or informal Advisory board develops. Since the Entrepreneur usually gains financing approval through board approval, the Entrepreneur is subordinate to them.
3. The Entrepreneur goes into business by exchanging required Resources (R) with the environment.
4. The first Management (M) team is developed, and “departments” or functions are formed, but the Entrepreneur retains the responsibility to obtain required Resources.

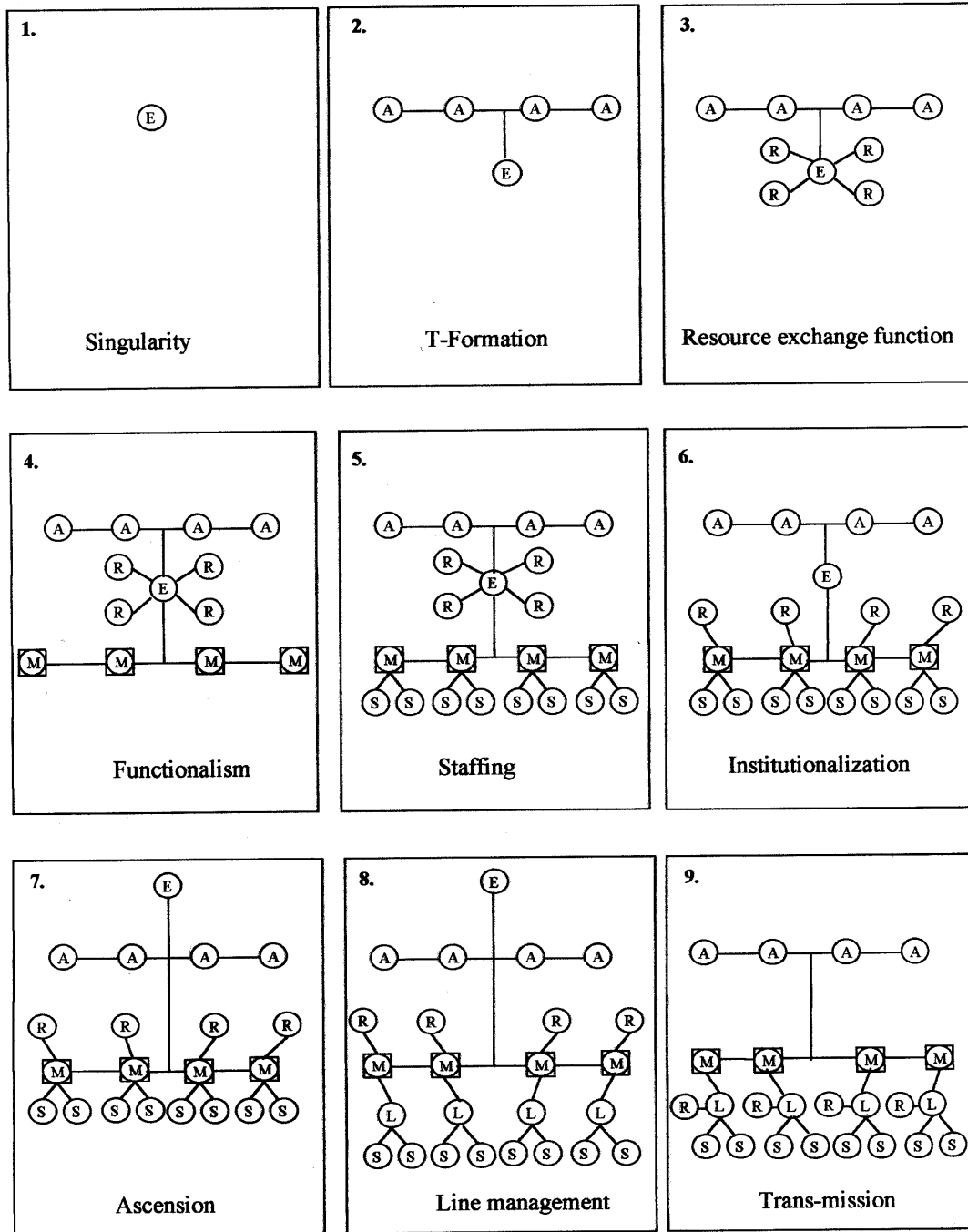
5. With further growth, Staff (S) is added.
6. As further growth occurs, the Entrepreneur assigns “resource exchange functions” to the Management team.
7. Based on continued successful growth, the Entrepreneur arises in real power over the Advisory board of directors.
8. As growth continues, additional layers of organization and levels of Line managers (L) are added.
9. The Entrepreneur leaves the firm and the Entrepreneur’s mission is maintained as part of the culture of the firm.

### **Possible Patterns Of Growth In Economic Value**

The literature suggests that the change in the economic value of an emerging organization may not be linear as the organization grows. Value may be created “spontaneously” at some point, as the future cashflows become “real” and as belief in the sustainability of the organization becomes manifest.

The questions arise: when does value-creation first occur in organizational formation, and to what extent is the growth in value linear or nonlinear? Disproportionate amounts of value may be created in a short period of time as the organization “coalesces” or first becomes systemized. Early in the literature, Follett (1941) outlined a doctrine of “holistic” or a circular response as the basis for a theory of organizing, implying that the organization becomes a “unity” or entity at some level of complexity. Follett identified processes that become “circular” or “on-going” at some point in a firm’s life. Organization coming into fruition as a “self-creating” coherence. Follett (1941) wrote, “Whether you have [an organization] with all its parts so coordinated, so moving together in their closely knit and adjusting activities, so linking, interlocking, interrelating, that they make a working unit--that is, not a congeries of separate pieces, but what I called a functional whole or integrative unity” (p. 71). Bhide in Sahlman et al. (1999), stated, the failure to attain sustainability matters and an enterprise that is perceived to be self-sustaining can enter a virtuous cycle: expectations of longevity attract customers and other resources that further consolidate its position and open new opportunities. When is the organization first considered “sustainable” as assessed by the market? Attainment of such “sustainability” is a major goal of the entrepreneur. This organizational “unification” is described by Russell (1999): Maruyama has described ‘morphogenetic’ systems whose elements are linked by mutual reinforcing positive feedback loops ... the positive feedback between the norms and participation in the entrepreneurial process itself may create an ‘autocatalytic’ subsystem within an entrepreneurial organization in which new ideas are continuously generated and processed without the necessity of external motivation” (p 79).

**Figure 1. A Verified Nascent Organization Structure Sequence (VNOSS) Model.**



McMullan and Long (1990) pointed to a “special period” in a venture’s early life: “our idealized entrepreneurial strategy involves a systematic evolution of a venture medium into a living system over time. The end point of the entrepreneurial process is, then, the end of an entrepreneur’s attempts at strategic development--the point at which a venture becomes a living system no longer needing the entrepreneur’s contribution to survive and prosper” (p. 138); “The living system is, by definition, a self-sustaining entity” (p. 138). Issues of time-frame, decay and decline are left undefined.

Many other authors point to sustainability or systemization as a particularly valuable organizational event. It is hypothesized that a “disproportional” amount of an organization’s initial value may be created during a specific period of organizational growth. It is proposed that this critical phase may be identified by a high rate of growth in economic value. Hence, the current study applies curve-linear regressions to test if these patterns exist.

### **Research Questions**

The following questions have been developed.

1. Using an episodic model of early-stage organization development, what is the perceived economic value based on the existence of the structure itself within a market opportunity?
2. What, if any, stage or growth episode produces extraordinary or disproportionate amount of economic value?
3. What are the typical characteristics of the growth pattern of increasing economic value as a firm grows through early stages?

The present research measured the perceived assessed economic value of new organizations at each stage of a Verified Nascent Organizational Structure Sequence (VNOSS) model development.

### **METHODS**

The research design was survey research. Survey research, particularly mail surveys, have been a standard in quantitative research on small business and entrepreneurship (Dennis, 2003). In fact, an examination of important journals (ET&P, ISBJ, JBV, and JSBM) revealed that one-third of the articles were based on mail survey (Newby, Watson, & Woodliff, 2003). The purpose of the Evaluation survey was to determine the economic value the “market” would assign to an organization as it grows in accordance with the VNOSS model, when presented with a fixed economic opportunity.

### **The Sample and Data Collection**

A sample of CPAs were chosen as evaluation experts in small or nascent business evaluation because they regularly evaluate the economic worth of businesses for estate, tax, transfer, legal proceedings and other purposes. Hence, they represent a group of market makers, or market proxy, for emerging firms.

CPAs were chosen at random from CPAs practicing in Massachusetts as listed by the Massachusetts Society of Certified Public Accountants. The CPAs were asked to assess the economic value of the organization in various stages of emerging formulation, in accord with the



VNOSS model. To prevent the assessment of economic value of one stage influencing other stages, the respondents were asked to evaluate only one VNOSS stage at a time. To give the CPAs some indication of the size of the economic market, they were asked to evaluate the firm while in the presence of a potential \$1,000,000 market sized opportunity.

Each respondent was asked to evaluate the firm at two stages of VNOSS growth. The stages were chosen at random. The sample was told that the firm was capable of capturing the market when the company was fully developed. Therefore, the economic value assessed by the survey participants is thought to be equal to the ability of the organization to capture current economic value, and the ability of the venture to continue its growth and survive. Furthermore, the economic value assigned by the sample suggests an indication of the professional's assessment of future survivability since present value exists when future cashflows are expected. Hence, the value assigned is an indication of the worth of organization based on the perceived ability of such a structure to continue operations and grow, and may be interpreted as the value of organization as distinct from the value of an organization.

A total of 534 evaluation questionnaires were mailed and 145 were returned for a response rate of 13.6%. This is an acceptable response rate as the typical business study response rate is 10.5% (Grumbagen & Mittelstaedt, 2005). The survey included two (2) evaluation requests, as each CPA participant was sent two VNOSS stages on separate pages, and asked for their economic evaluation opinion of each stage for a total of 1,068 economic evaluation opinions requested. The 145 returned evaluations yielded data points of assessed economic value and were used for regression analysis. The average professional experience as a CPA and evaluating businesses was 27 years, 87% of evaluators consider a firm's hierarchical structure an important component in assessing value, and 93% of the CPAs stated they use discounted expected cashflow as a criterion for assessing the value of a firm.

## Measures

The Evaluation survey was specifically designed to collect data regarding the relationship of Assessed Value to the VNOSS stage. The dependent variable is the Assessed Value, and was matched as a data point, with the independent variable VNOSS stage. A pilot testing of the Evaluation survey instrument was conducted before mailing.

To perform curve-linear regression, SPSS requires that an estimate of upper and lower boundaries of a dependent variable be input. Firm value was computed, based on generally accepted pricing multiples based on discussion with evaluating CPAs.

$$\text{Value} = \text{Price Multiple} \times \text{Cashflow}$$

A low-end price multiple of 2 times cashflow was arbitrarily applied. Here, we have a theoretical minimum value of:

$$\text{Value} = \$2,000,000 = \$1,000,000 \times 2$$

A pricing multiple of 6.5 times cashflow was applied, the present value of the mature organization could be as high as:

$$\text{Value} = \$6,500,000 = \$1,000,000 \times 6.5$$

These are approximate estimates of value, computed and used only to frame the curve-linear regression as required by SPSS.

The sample of CPAs was asked, then, to assess the value of organization at various, randomly chosen VNOSS stages. It was hypothesized that "value" may emerge at some point

and grow in a non-linear form, and in particular, in a non-linear “S” form with the lower asymptote near zero and the upper asymptote somewhere between Pricing Multiple derived assessment of between \$2,000,000. and \$6,500,000. These values were utilized as limiting parameters in the non-linear regression procedures performed within this study.

### Statistical Analysis

One linear and two nonlinear regression procedures (S-curve and cubic) were applied to determine the relationship between the dependent variable Assessed Value at each independent variable VNOSS growth stage and the characteristics of growth in economic value tested the goodness of fit for each model.

It was hypothesized that the relationship of Assessed Value and VNOSS stage may not be linear and that the relationship may be described as an “S” curve or some other higher-level curve function. Such curves are not linear in the parameters and therefore may not be transformed into linearity, hence, curvilinear regression must be specifically applied to the data.

The “S” curve is a function having one “inflection point” and two “bends” or differential growth periods. One published general “S” function testable by SPSS, as a nonlinear fitting procedure is the Gompertz expression. The Gompertz function is expressed as follows:

$$Y = A + Ce^{-e^{-B(X-M)}}$$

Where: Y = Assessed Value  
 X = VNOSS stage  
 A, controls the lower asymptote  
 C, controls the upper asymptote  
 M, controls the time of maximum growth  
 B, controls the growth rate

The Gompertz equation outlined above was rewritten as a model expression for input to SPSS as:  
 $Y = A + C * \exp(-\exp(-B * (X - M)))$

The Gompertz growth function is thought to generally describe an exponential growth situation where limiting factors naturally occur, slowing the rate of growth after an initial high-growth period. This type of growth pattern is seen in biology and economic markets where some natural limit of growth exists (i.e. competition occurs).

The aim of the specific modeling strategy was to determine the impact of the treatment of VNOSS stage on the dependent variable, “Assessed Value” growth as an entrepreneurial organization grows. The data was graphed and visually examined. The F-test for testing linearity of regression was noted. Multicollinearity is not a concern as there is only one independent variable. The R<sup>2</sup> for the simple linear regression was noted and the standardized residuals were examined.

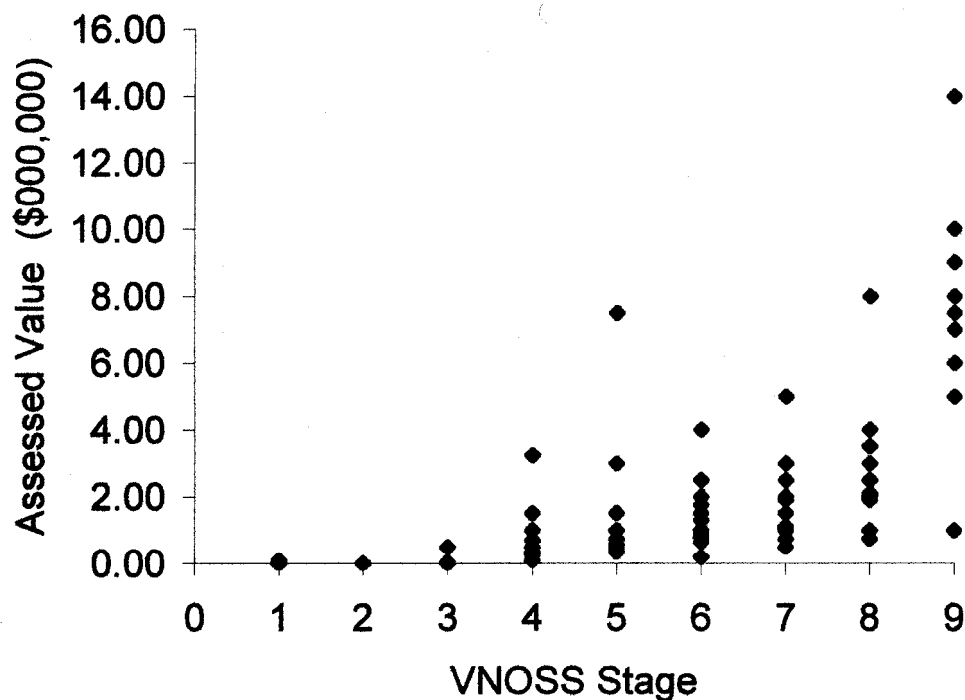
Additional polynomial functions were tested and the total variance (adjusted R<sup>2</sup>) explained by each curvilinear model was noted for determination of improved model specification. Since economic value is the output of the entrepreneurial process, it is proposed that the function of “entrepreneurship” as “creative innovation” has successfully occurred when sustainability has been reached. This definition of entrepreneurship as based on a measurable output would be significant to the investment and venture capital fields where professional investors are searching for new paradigms to assess, identify, and predict emerging value.

It is believed that the assumption of independence for each Assessed Value observation is met, as the respondents did not influence each other. The cases represent a random selection from the population. The 534 sample CPAs were selected at random from the population of approximately 5,500 Massachusetts CPAs. Violation of multicollinearity is not a concern because there is only one independent variable [VNOSS stage].

## RESULTS

Visual inspection of the scatterplot as presented below in Figure 2, indicated that the relationship might be prescribed by one of the regressions tested. According to the SPSS manual, “For a nonlinear model, the tests for linear models are not appropriate ... the residual mean squares is not an unbiased estimate of the error variance, even if the model is correct ... the F statistic cannot be used for testing hypothesis.” However, the adjusted  $R^2$  can be employed to determine the total variance explained by the model. So only the adjusted  $R^2$  coefficients can be directly compared.

Figure 2. Scatterplot\*



\*The relationship of an organization’s perceived economic value (\$000,000) as assessed by a sample of CPAs based on a Verified Nascent Organization’s Sequence of Structures (VNOSS).

(As N = 145, each point may represent multiple data values).

The nonlinear regression module of SPSS was employed to determine the parameters of the best fitting model of the variables. A linear model was analyzed first for use as a baseline to judge the fit of more complex curvilinear functions. Model expressions for various “S” curves were employed because these models were thought to generally portray the growth of organisms and systems where there is initially slow growth, a period of high growth, and then a subsequent slowing of growth as some capacity constraint begins to take place. It is thought that the economic value of a nascent firm may grow exponentially from a near zero asymptote, exhibit high growth and then experience a slow-down in the rate of growth, due to the ending of the entrepreneurial phase, the introduction of competition, or possibly the capture of the total market opportunity.

### Linear Regression

A linear regression analysis was first conducted to evaluate the fit of Assessed Value to the VNOSS stage variable. The scatterplot of the two variables, as shown in Figure 3, indicates that the two variables could be considered linearly related since, as the VNOSS stage proceeds from stage 1 to stage 9, the overall assessed value increases. The correlation between the Assessed Value and the VNOSS stages was .68,  $t(143) = 11.32$ ,  $p = .000$  and approximately 47% of the variance of the Assessed Value are accounted for by its linear relationship with the VNOSS stage. The linear regression results are presented in Table 1.

**Table 1. Linear Regression Results**

Variable	B	SE B	$\beta$
Constant	-1.914	0.369	-
VNOSS	0.717	0.063	0.687

The linear regression equation for predicting the overall Assessed Value regressed on VNOSS stage is:

$$\text{Assessed Value} = -1,914,000. + 717,000 \text{ VNOSS stage}$$

This *linear* model does not yield a positive value until the third stage [Resource exchange] of the VNOSS has been achieved. This result is outlined here:

$$\text{Assessed Value} = -1,914,000. + 717,000 (3)$$

$$\text{Assessed Value} = \$237,000.$$

As hypothesized, the Assessed Value increases as the VNOSS stage increases. The slope of 717,000 suggests that the perceived value of the new organization grows by \$717,000 as the organization progresses to the next VNOSS stage. Assuming that the relationship between Assessed Value and the VNOSS stage is prescribed linearly, the predicted values for the first two VNOSS stages would be negative. This finding may indicate that the early “thought”, “conceptual” or “pre-organizational” stages have little or no economic value to the market.

Positive Assessed Value first appears at the VNOSS stage 3 [Resource Exchange Function], or when the entrepreneur first shows the action/behavior of gathering resources.

### S-Shaped Curve-Linear Regression

In an attempt to more fully define the relationship of Assessed Value and the VNOSS stage, regression curve fitting procedures were conducted utilizing the Gompertz curve. The overall fit of the data slightly improved as an “S” shaped curve was fit to the data. The Gompertz non-linear regression yielded  $R^2 = .65$  and the “S” function did appear to show some correlation of Assessed Value to VNOSS stage. The fit of the “S” curve explained approximately 18% more variance than the linear regression. However, the SPSS curve fitting procedure failed to converge on a well-prescribed “S” solution. The parameters obtained from the fit of the Gompertz function are outlined in Table 2.

**Table 2. Curve-Linear Gompertz Regression Results**

Parameter	Estimate	Asymptotic	95% Confidence Interval	
Std. Error	Lower	Upper		
B	0.2013	0.2852	-.3625	0.7652
M	14.5066	15.9988	-17.1219	46.1353
C	132.6622	669.3429	-1190.5828	1455.9073
A	0.4618	0.2246	0.01782	0.9059

Where: B = The growth rate  
M = Time of maximum growth  
C = Upper asymptote  
A = Lower asymptote

Based on the results in Table 2, for parameter estimates and their standard errors, the general pattern cannot be well described as an S-shaped Gompertz function. The projected M (time of maximum growth) parameter of 14.5 indicates that the inflection point or time of highest local slope was placed at stage 14.5, which is beyond the time frame of the current study. The upward sloping curve did not “level off,” and the C parameter of 132.6 indicates an upper asymptote or maximum Assessed Value of \$132.6 million dollars, which is well beyond the reasonable CAP-M value of \$6.5 million. Hence, it is concluded that the “S” curve is not well fitted. This problem is confirmed by the high standard error (669.3429) for the upper asymptote, which indicates that the SPSS procedure was unable to find a convergent solution.

A visual inspection of the data in Figure 2 shows that the general increase in Assessed Value seems to continue upward at an accelerating pace. Hence, these findings suggest that the perception of the market is such that the firm generally becomes sustainable after the entrepreneur leaves the firm, and that a period of “abnormal” or “unusual” economic growth is not necessarily identifiable in time frame so posed within the current study.

### Cubic Curve-Linear Regression Results

Use of the curve fitting procedure of SPSS regression analysis outlined a cubic function; a non-linear curve defined by the independent variable with third, second and first power exponents. Cubic functions describe high growth in the dependent variable. While the linear regression provided an R squared of 47%, and the Gompertz function explained 65% of the variance, it was found that the fit of a cubic function would explain 66% of the variance ( $p = .000$ ). The results of a cubic fit are presented in Table 3.

**Table 3. Cubic Regression Analysis Results**

Variable	B	SE B	$\beta$	T	Sig T
Constant	-1.8883	0.8389	-	-2.251	.0259
VNOSS	2.1013	0.6962	2.0155	3.018	.0030
VNOSS <sup>2</sup>	-.5539	0.1588	-5.5195	-3.488	.0006
VNOSS <sup>3</sup>	.04750	0.0104	4.3687	4.529	.0000

Each of the variables shows significance. The “cubic” equation found is delineated as follows:

$$\text{Assessed Value} = -\$1,888,300 + \$2,101,300 \text{ VNOSS} - \$553,900 \text{ VNOSS}^2 + \$47,500 \text{ VNOSS}^3$$

Assuming a cubic function fit, an evaluation of this equation shows that value first “emerges” or becomes non-negative at VNOSS stage 2 [T-Formation] where:

$$\text{Assessed Value} = -\$1,888,300 + \$2,101,300 (2) - \$553,900 (2^2) + \$47,500 (2^3)$$

$$\text{Assessed Value} = \$478,700.$$

As was mentioned, the increase in Assessed Value did not appear to slow or “level off” as the VNOSS stage progressed. This finding may be explained by the “framing” or limitation of the study in imposing a limit in the assessment of value of the organization to when the entrepreneur leaves the firm. It is possible that the growth in value begins to slow *after* that phase and hence, a slowing of growth period was not included in the data of the current study. A subsequent study encompassing a longer developmental time frame and larger samples may exhibit a slowing of Assessed Value that may better prescribe an “S” function shape.

## DISCUSSION

The method for determining the association of assessed value regressed on VNOSS stage was examined within three regression functions. Linear regression, an S-type curve-linear regression and a cubic type curve-linear were applied to the data. Based on the regression results, the Assessed Value was found to be related to the VNOSS stage of growth.

A curve-linear Gompertz “S” type function was not found to be well specified as the parameter estimates did not converge on reasonably expected values. Based on the failure of the “S” functions to converge on reasonably expected values and stage numbers within the model, the specified “S” shaped curve-linear relationship was not found.

A linear correlation ( $R^2 = 47\%$ ,  $p = .000$ ) between the Assessed Value and the VNOSS stage was found. A

“cubic” or third-powered exponential growth function was also detected ( $R^2 = 66\%$ ,  $p = .000$ ) in the relationship between assessed Economic Value and VNOSS stage.

The current study suggests that evaluation experts perceive a change in economic value for episodic stages of development in new organizations in the presence of market opportunities. The results also suggest that the economic value of two early stages VNOSS 1 [singularity] and VNOSS 2 [T-formation] are nil or low. The firm whose entrepreneur IS in the “thought, discussion,” or “advising” stage of development has little identifiable economic value.

The results also suggest that evaluation experts first attribute value to an entrepreneurial organization when the entrepreneur has begun the advising [T-Formation, VNOSS 2] stage or resource acquisition [VNOSS 3] stage, depending on the assumption of a cubic or linear function. The firm’s economic Assessed Value seems to grow substantially as the entrepreneur advances the company beyond these stages to multiples of about 4 to 7 times free cashflow.

An “S” curve function was also tested, and the regression fit of a Gompertz “S” curve function did not converge on reasonably expected parameters. Hence, it is suggested, then that any “disproportional” wealth creation rate, may be beyond the timeframe of the current study and may occur beyond the time when the entrepreneur leaves the firm, which was defined as Stage 9 [Trans-mission] of the VNOSS model.

A cubic or exponential growth function did fit the data well ( $R^2 = 66\%$ ) and provided a significant result ( $F = 89.83$ ,  $p = .000$ ) indicating that the value of the firm increases at an increasing rate and becomes positive at the second VNOSS stage [Resource Exchange] of growth.

## IMPLICATIONS

Earlier research (Fiore & Lussier, 2007) suggested that episodic growth stages of development (the VNOSS model) may exist for emerging organizations. All stages of growth beyond the first VNOSS stage (the phase where the entrepreneur is simply formulating conceptual plans) exhibited increasing perceived economic value according to a sample of CPAs.

The existence of any “disproportionate” growth in perceived economic value was not located by the presence of any “local maximum slope” or inflection point in an “S” curve. It is suggested that any “high economic growth” period may be beyond the timeframe as accessed in the current study. This may indicate that evaluators perceive that the firm has substantial value-growth potential beyond the stage where the originating entrepreneur leaves the firm.

Evidence was found that the economic value of the firm grows exponentially in a cubic manner, and that the growth in economic value may level off or slows after the time frame of this study. Although a linear increase in assessed Economic Value versus VNOSS stage growth was detected in the data, an “S” or non-linear function did not fit the data well. A “cubic” relationship was found to significantly describe the relationship of Assessed Value and VNOSS stage.

The authors acknowledge that the current research is exploratory in nature and that further work in experimental refinement needs to be accomplished. It is suggested that future research be conducted using a longitudinal structured interview analysis. Episodic hierarchical development should be noted as unbiased observation by a person other than the entrepreneur. Research initiatives should be based on a broader scale and with a greater sample size and targeted to a more diverse sample group. This study should also be applied to low-growth and medium-growth organizations. This type of study could also be applied across nations to detect possible differentiation of episodic growth patterns per nation, possibly based on cultural or economic differences. A study conducted by industry may yield additional insights. Further empirical identification of episodic stages in organizational growth needs to be accomplished.

Verification of commonly occurring episodic stages of growth may help entrepreneurs track their growth progress, and assist investors in maximizing capital allocation and returns, increase entrepreneurial success rates and provide growth guidelines. These improvements would

reduce wasteful bankruptcies and failures.

Clearly there are classes of entrepreneurial endeavors with varying degrees of intensities and potential return. It would be beneficial to the entrepreneur to have organizational development goals and plans in mind to lead the organization towards increased value-creation and ultimately harvest. The present study suggests that the episodic VNOSS growth model may serve as a set of important milestones to leaders, evaluators or owners of such organizations.

It is recommended that investors who are searching for high rates of return consider identifying target firms that are rapidly developing along an episodic sequence of organizational structure. Assessing the potential of organizational structure growing, and the velocity of change in that structure, in the presence of a substantial market opportunity, may yield an effective investment strategy. Such an evaluation methodology may be superior to the use of multiples applied to historical cashflows when evaluating emerging entrepreneurial ventures.

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## AN ANALYSIS OF SMALL BUSINESS IN CHILE: A CORRELATIONAL STUDY

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### ABSTRACT

**This is a survey study replicating the Lussier (1995) success variables validated in the U.S.A and Croatia with a sample of 145 small business owners in Chile. There were 26 significant correlations between the success variables. A major finding was the fact that business owners don't tend to make much use of professional advisors, yet it was correlated with six other variables, indicating that small businesses may benefit from their use. The results, discussion, and implications are presented.**

### INTRODUCTION

Every entrepreneur starts with high hopes of success, but there is a liability of newness (Morse, Fowler, & Lawrence, 2007). Each year firms go out of businesses. Although not all firms that close are failures, many firms do fail each year (Bates, 2005). Thus, the odds of forming a profitable venture are a critical issue for those weighing the risk of starting a business (Dennis & Fernald, 2001), and an understanding of why firms succeed is crucial to the stability and health of the economy (Corman, Lussier, & Nolan, 1996; Pompe & Bilderbeek, 2005).

Understanding small business is an important area of research (Davidsson & Klofsten, 2003; Pompe & Bilderbeek, 2005; Westhead, Wright, & Ucabasaran, 2001) because it can benefit both the would be and current entrepreneurs; those who assist, train and advise them; those who provide capital for their ventures; their suppliers; faculty and students; and public policy makers (Lussier & Pfeifer, 2000; Reynolds, 1987). However, discovering which factors or practices lead to business success is an unfulfilled purpose of business research (Rogoff, Lee, & Sub, 2004). The objective of this study was to use the Lussier (1995) success variables, which have been validated in the U.S. and Croatia, in Chile to better understand small business in Latin America and South America.

There is a need for empirical study of international small business (Oviatt & McDougall, 2005) and to replicate results cross-nationally (Lussier & Pfeifer, 2001). To date, there is limited empirical research on small business in Chile (Yeyati & Micco, 2007), and there is a need for more research (Silva, Majluf, & Paredes, 2006). It is a good place to study because Chile has free markets in almost all economic sectors. However, it is a pioneer in all economic reforms which have been followed by the other Latin American countries. Chile started the economic and structural reforms one to two decades before the other countries, and it has the highest per capita income in Latin America (Banco Central de Chile, 2006).

### THE IMPORTANCE OF CHILE TO LATIN AMERICA AND SOUTH AMERICA

Chile is a small open market economy. Following the Chicago School of thought, it was the first Latin American country and South American country to go through a series of reforms, such as the privatization of state owned industries, including banks, utilities, transportation, and others. It drastically opened the economy, starting in 1975, achieving an effective tariff of only 2% in

2005, accomplishing the goal of departing from the import substitution model. It also eliminated all kind of non-tariffs restrictions. In the process, many industries which were import competing went out of business, especially small business, as they could not compete with more efficient industries in other countries, among them—textile, clothing, shoes and manufacturing. The Chilean economy has been recognized as the most competitive of Latin America. In the last two decades, many firms in this small country have been able to cope with a significant increase in foreign competition resulting from reduced tariff barriers and the arrival of world-class firms (Maldifassi, 2003).

Chile's competitive advantages are in natural products including minerals, sea products, chemical products, cellulose, forestry wood, and agriculture. Finished goods exported include wine and salmon. Chile is the world's largest copper producer (San Juan, 2007). Chilean manufacturers have had plant productivity improvements that can be attributed to a liberalized trade for the plants in the import-competing sector. In many cases, aggregate productivity improvements stem from the reshuffling of resources and output from less to more efficient producers (Pavcnik, 2002). However, there is a shift from manufacturing to services firms (Maldifassi, 2003). The banking industry in Chile has been the most efficient in the world at cutting costs (Elewaut, Lindenboim, & Scokin, 2003).

Chile decided not to be a member of Mercosur, since it adopted a different trade policy. Since 1990, Chile has been negotiating free trade agreements with different partners. It is now a NAFTA member and has the following agreements:

- Partial Agreements: India and Cuba
- Economic Association Agreements: P4 and Economic Union
- Economic Complementation Agreements: Bolivia Venezuela, Ecuador and Mercosur
- Free Trade Agreements (FTA): Canada, Korea, China, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, United States, Mexico, NAFTA, Panama, Colombia and Perú.

Other kinds of reforms were the Central Bank autonomy and independence which controlled the monetary policy and thus the inflation rate. The State reform, which controlled the public expenditure, and tax reform forced the few remaining state public firms to be independently owned and operated.

Chile experienced high growth rates since the mid eighties helped by macroeconomic policies that provided continuity in business performance and investment. In 2006, its GNP was US \$151.8 million. GDP real growth rate during the last 11 years was 47% while retail growth has been 57%. The population of Chile is 16.5 million people, with a per capita GDP of US \$9,200. Chile's per capita income is the highest in Latin America, and when corrected with purchasing power parity, it is the second in the region, after Argentina. The average annual inflation rate over the last 6 years has been 2.5%. Investment rates on fixed capital for the last 6 years has been 21.5% of GDP. The average unemployment rate during the last 10 years has been 8%, and the average growth of real wages has been 2% during the same period (Banco Central de Chile, 2006). Chile became known as "Latin America's Tiger", with an economy whose growth performance showed more in common with dynamic countries in Southeast Asia than its neighbors. Indeed, though not a member of the OECD, Chile outperforms some OECD countries, in labor productivity, for instance (de Mello & Mulder, 2005).

In Chile, economic development and education have been linked together to the benefit of its citizens. The rapid assimilation and implementation of U.S.-oriented MBA programs have arguably given Chile an edge over most countries in Latin America, if not all, in the creation of a

well-educated and flexible workforce. The institutions of higher learning in Chile seem to be more than willing to meet the challenge (Contreras & Ruff, 2002).

## **METHODS**

### **Study Design and Sample**

The primary methodology of this study was to replicate the Lussier (1995) survey research study in Chile. Survey research, particularly mail surveys, have been a staple in quantitative research on small business and entrepreneurship (Dennis, 2003), in fact, an examination of four journals (ET&P, ISBJ, JBV, JSBM) revealed that one-third of the articles were based on mail survey (Newby, Watson, & Woodliff, 2003).

A random sample of 600 small businesses were selected from the Chile Chamber of Commerce database. Of the 600 small businesses, 250 were returned resulting in a response rate of 42%. However, only 145 had all questions answered, and were included for statistical analysis. This is an excellent response rate as the typical business studies response rate is 10.5% (Grunbagen & Mittelstaedt, 2005). All six major areas of Chile were included, making it a national sample, and thus, results may be generalized to the entire country.

### **Measures**

The self-reporting questionnaire used by Lussier (1995) to collect data was obtained. However, due to the lack of minorities in Chile, the minority ownership variable was not included in the questionnaire. To be included in the Lussier (1995) 15 variable model, a variable had to have been included in a study that had at least three variables identified as contributing factors to success and failure. See Table 1 for an explanation of the 14 model variables found in this study. Descriptive variables (years in business, number of employees, and industry of the business) were also included in the questionnaire. The 14 variables in the Tables are validated through being used in both the U.S. (Lussier, 1995) and Croatia (Lussier & Pfiefer, 2001) studies.

### **Statistical Analysis**

Descriptive statistics were run for all 17 variables. Bivariate correlations were also run for all 17 variables. The nominal variables (12 having partners, 13 parents owned a business, and 17 industry) correlations were run using the nonparametric Kendall's tau\_b coefficients and p = values. The other 14 variables having interval and ratio data were run using the parametric Pearson coefficients and p = values.

## **RESULTS AND DISCUSSION**

Table 2 contains the descriptive statistics—means, standard deviations, medians and modes for the interval and ratio level variables and the frequencies and percentages for the nominal variables. Overall, based on the perceptions of the 145 business owner sample in Chile, they start with (1) inadequate capital, are fair in (2) record keeping and financial control, do start businesses with (3) industry experience (m = 6 years) and (4) management experience (m = 8 years) with fairly detailed (5) plans, don't make much use of (6) professional advisors, are

mostly (7) college graduates, can (8) staff their businesses, (9) product/service timing and (10) economic timing are not problematic, are relatively mature (11) ( $m = 33$  years of age), over half have (12) partners and more than one-third have (13) parents that owned a business, they are fairly skilled in (14) marketing, they operate mature (15) businesses ( $m = 15$  years old) that can be classified as small business ( $m = 38$  employees), and are predominately in the service sector (36%) and retailing and wholesale (50%) with less in manufacturing (10.5%) and agriculture, fishing, forestry, and farming (3.5%).

Table 3 has all 17 variable bivariate correlations among the variables for the 145 Chile businesses. There were 26 significant correlations. Below is a presentation of the significant correlations presented in order by the variable number.

(1) Capital is significantly correlated with (3) industry experience, (4) management experience, (5) planning, and the use of (6) professional advice. Thus, entrepreneurs with more experience are able to acquire more capital, make better plans, and do make greater use of professional advice.

(2) Record keeping and financial control was correlated with (6) professional advice and (8) staffing. Thus, using professional advice leads to better record keeping and financial control. Although correlated, keeping good records and financial control doesn't seem to increase the ease of staffing. This may be because there is no logical relationship between the two variables or that better record keeping and financial controls do lead to better staffing records.

(3) Industry and (4) management experience are correlated and they are both correlated with (11) age. This is logical because often with age comes industry and management experience. (4) Management experience was also correlated with (9) product/service timing. Management experience may lead to better timing of where in the product life cycle to start a new business; generally, the earlier the better.

(5) Planning was correlated with (6) professional advice. Professional advisors can help the entrepreneur create more detailed plans.

(6) Professional advice was correlated with six other variables. Again, it is correlated with (1) capital, (2) record keeping and financial control, and (5) planning. Professional advice is also correlated with (7) education, (12) having partners, and (16) number of employees. Thus, entrepreneurs that use professional advice have more capital, better record keeping and financial control, more detailed plans, higher levels of education, tend to form partnerships, and have more employees.

(7) Education is correlated with (6) professional advice, (8) staffing, (12) partners, and (14) marketing skills. Thus, more highly educated entrepreneurs make greater use of professional advice, have a perception that staffing is easier, tend to form partnerships, and have greater marketing skills.

(8) Staffing, again, was correlated with (2) record keeping and financial control and (7) education.

(9) Product/service timing was again only correlated with (4) management experience.

(10) Economic timing was correlated with (12) having partners. Partners may be better at determining when during the economic growth stage to start a business.

(11) Age was correlated again with (3) industry experience and (4) management experience, and with (15) the number of the years the firm has been conducting business and (17) industry. As entrepreneurs age, the number of years in business can increase. By industry, the services mean age was 34.67, the retail and wholesale mean age was 33.19, the agriculture/fishing/forestry/farming mean age was 30.60, and the manufacturing mean age was

29.60. However, when running a one-way ANOVA, which is a more robust test with a nonparametric dependent variable, the age difference is not significant ( $p = .305$ ).

(12) Having partners was again correlated with (6) professional advice, (7) education, and (10) economic timing. It is also correlated with (16) number of employees. Partnerships tend to have larger businesses with more employees.

(13) Having parents that owned a business was correlated with (15) years in business and (16) number of employees. The respondents were not asked if the business was in multi-generations. If so, it is logical that the business would be older and larger.

(14) Marketing skills was again only correlated with (7) education.

(15) Years in business was again correlated with (11) age and (13) parents owned a business. It was also correlated with (16) number of employees and (17) industry. It is logical that an older business will tend to have more employees. Years in business by industry was also tested using one-way ANOVA and it was significant ( $p = .019$ ). The services mean years in business was 11.69 years, the retail and wholesale mean years was 14.48 years, the agriculture/fishing/forestry/farming mean years was 18.00, and the manufacturing mean was 24.13. Thus, in the sample, the manufactures were in business the longest and services the shortest number of years.

(16) Number of employees was again correlated with (6) professional advice, (12) partners, and (13) parents owned a business.

(17) Industry was again correlated with (11) age, (15) years in business, and (16) number of employees.

## IMPLICATIONS

The Lussier (1995) variables of success were also correlated in the sample for Chile, further validating the model. The most relevant finding is that entrepreneurs in Chile do not tend to make much use of professional advisors. However, the use of professional advisors was correlated with six other variables: capital, record keeping and financial control, planning, education, having partners, and the number of employees. The finding indicate that entrepreneurs that use professional advice have more capital, better record keeping and financial control, more detailed plans, higher levels of education, tend to form partnerships, and have more employees.

If entrepreneurs, managers, investors, lenders, suppliers, educators, consultants, and public policy makers use the information in this study, society can benefit because through direct and indirect ways we all pay when our limited resources are misallocated. Thus, entrepreneurs should consider making greater use of professional advisors. Those who assist, train and advise entrepreneurs may need to do a better job of marketing their services by including documentation of success at helping small business owners. Chile venture capital development has been slow in spite of the country's economic growth and stability (Chocce & Ubeda, 2006). Those who provide capital for business ventures in Chile may use these finding to increase confidence in funding, and they may want to be sure the firm takes advantage of professional advice. Suppliers may also be a source of advice to the small businesses they serve. Faculty may want to teach business students about the variables of success in this study, as well as other studies.

Pubic policy makers in Chile do realize the importance of small business because it employees the majority of the labor force, so entrepreneurial prosperity is very important to the economic growth of the country. However, economist believe resources are not used efficiently. The people of Chile believe that business success is due to entrepreneurship skills, not to State favors. In Chile, there are no State protected sections, and State policies are supposed to help the

small business. However, all the reforms have helped big business, while many small businesses have failed to compete with large business and the new global competition in Chile.

Public policy makers that want small businesses to succeed should consider offering more low interest loans so that entrepreneurs don't continue to start undercapitalized. The government can also make greater use of professional advice to small business at lost cost. The advisors can include understanding the capital needs to start a business, how to keep records and financial controls, management training including how to develop a business plan, staffing, and training on how to market the small business. The government may want to develop a Small Business Administration department based on the U.S.A. SBA government model.

As with all studies, this one has limitations. Although the 14 variables do show correlations between them, they are general measures. More precise measures are needed to be of more assistance to small business. For example, which types of professional advice is needed? What is the amount of "adequate" capital to start a new venture? What is the difference between "good and poor" record keeping? How "specific" should the business plan be? What is the difference between "easy and difficult" staffing and how much and what types of marketing skills are needed to be successful? The variables are also measured based on the perception of the small business owner. Research would be more robust with more objective measures. Thus, further research is needed to improve the measures of success and by making the measure more objective.

Although the variables had correlations in the U.S.A., Croatia and Chile, the variables may not apply to other countries. Cross-cultural study limitation also applies to this research because there are so many differences between cultures that one can not control for (Shane, 1993). For example, there are differences in legal systems, the economy, attitudes towards business failure and other factors. In conclusion, the Lussier (1995) success variables do appear to have support for use in other countries. But the finding of this study does have limitations and further research is needed.

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**Table 1**  
**Explanation of Success Variables**

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**Capital (capt).** Businesses that start undercapitalized have a greater chance of failure than firms that start with adequate capital.

**Record keeping and financial control (rkfc).** Businesses that do not keep updated and accurate records and do not use adequate financial controls have a greater chance of failure than firms that do.

**Industry Experience (inex).** Businesses managed by people without prior industry experience have a greater chance of failure than firms managed by people with prior industry experience.

**Management Experience (maex).** Businesses managed by people without prior management experience have a greater chance of failure than firms that are managed by people with prior management experience.

**Planning (plan).** Businesses that do not develop specific business plans have a greater chance of failure than firms that do.

**Professional Advisors (prad).** Businesses that do not use professional advisors have a greater chance of failure than firms using professional advisors. A more recent source of professional advisors are venture capitalist

**Education (educ).** People without any college education who start a business have a greater chance of failing than people with one or more years of college education.

**Staffing (staff).** Businesses that cannot attract and retain quality employees have a greater chance of failure than firms that can.

**Product/Service Timing (psti).** Businesses that select products/services that are too new or too old have a greater chance of failure than firms that select products/services that are in the growth stage.

**Economic Timing (ecti).** Businesses that start during a recession have a greater chance to fail than firms that start during expansion periods.

**Age (age).** Younger people who start a business have a greater chance to fail than older people starting a business.

**Partners (part).** A business started by one person has a greater chance of failure than a firm started by more than one person.

**Parents (pent).** Business owners whose parents did not own a business have a greater chance of failure than owners whose parents did own a business.

**Marketing (mrkt).** Business owners without marketing skills have a greater chance of failure than owners with marketing skills.

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**Table 2**  
**Descriptive Statistics (N = 145)**

<b>Success Variables</b>	Mean/ [Frequency/ %].	S.D.	Median	Mode
1. Capital* (1 adequate - 7 inadequate)	5.19	1.02	5.00	5.00
2. Record keeping and financial control (1 poor - 7 good)	3.91	1.66	4.00	4.00
3. Industry experience (number of years)	5.99	7.07	4.00	0.00
4. Management experience (number of years)	7.81	7.77	5.00	0.00
5. Planning* (1 specific - 7 no plan)	2.58	.955	3.00	3.00
6. Professional advice* (1 used - 7 not used)	5.86	1.06	6.00	7.00
7. Education (number of years of school)	14.97	3.52	16.00	16.00
8. Staffing* (1 easy - 7 difficult)	3.59	1.82	4.00	4.00
9. Product/service timing* (1 intro. – 7 decline)	4.14	1.74	4.00	6.00
10. Economic timing (1 recession - 7 expand)	3.88	1.53	4.00	4.00
11. Age of Owner (number of years)	33.26	9.67	31.00	30.00
12. Partners (number with partners)	[76/52%]			
13. Parents (number parents did own a business)	[54/37%]			
14. Marketing (1 unskilled - 7 skilled)	4.57	1.88	5.00	6.00
<b>Descriptive Variables</b>				
15 Years in Business	14.60	13.82	10.00	1.00
16. Number of Employees	38.12	.894	2.00	2.00

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17. Industry	[52/36%
	service
	73/50%
	retail+
	5/3.5%
	agricult
	15/10.5%
	man]

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\* Reverse scale rating (lower value is preferred)

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Table 3

Correlations (N = 145)\*

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	capt	rkfc	inex	maex	plan	prad	educ	staf	psti	ect	age	part	pent	mrkt	ybu	#em
2	.014															
	.434															
3	.184	-.105														
	<b>.013</b>	.104														
4	.162	-.019	.435													
	<b>.026</b>	.413	<b>.000</b>													
5	-.290	.037	-.060	.021												
	<b>.000</b>	.328	.236	.402												
6	.147	-.141	.082	-.120	-.266											
	<b>.039</b>	<b>.045</b>	.162	.076	<b>.001</b>											
7	-.054	.204	.020	.006	.095	-.200										
	.258	.386	.404	.473	.128	<b>.008</b>										
8	-.018	.229	-.094	-.093	-.049	-.125	.293									
	.415	<b>.003</b>	.0129	.133	.279	.067	<b>.000</b>									
9	-	.050	.145	.153	-.090	-.080	-.029	.034								
	.0267															
	.378	.275	.041	<b>.033</b>	.140	.170	.365	.344								
10	.054	.007	.095	-.018	-.082	.131	-.075	.063	.051							
	.258	.468	.127	.413	.164	.058	.187	.227	.272							
11	.092	.028	.493	.700	.041	-.085	.006	-	.125	-.018						
								.070								
	.135	.370	<b>.000</b>	<b>.000</b>	.311	.155	.473	.200	.067	.414						
12*	-.084	-.035	.081	-.017	.101	-.182	.252	.064	-	-.170	.063					
									.100							
	.159	.339	.165	.421	.113	<b>.018</b>	<b>.001</b>	.221	.116	<b>.022</b>	.225					
13*	-.027	-.126	.068	-.073	.109	.070	-.036	-	.086	.072	.113	-.106				
								.074								
	.372	.086	.208	.193	.096	.202	.333	.189	.151	.195	.089	.103				
14	-.013	.110	.007	.013	-.047	-.003	.173	.086	.125	.072	-.059	-.100	-.062			
	.441	.094	.479	.437	.228	.484	<b>.019</b>	.151	.067	.194	.240	.116	.231			
15	.049	-.110	-.097	-.026	-.104	.072	-.025	-	.012	-.121	-.243	-.049	-.160	-.088		
								.042								
	.289	.093	.124	.378	.107	.194	.383	.307	.445	.073	<b>.002</b>	.280	<b>.021</b>	.146		
16	-.024	-.106	.048	.087	-.056	-.162	.048	-	-	-.112	-.064	.154	-.165	.061	.385	
								.029	.021							
	.389	.102	.285	.149	.252	<b>.026</b>	.284	.364	.402	.090	.222	<b>.032</b>	<b>.017</b>	.233	<b>.000</b>	
17*	-.029	-.119	.037	-.127	-.115	.048	.010	.013	.064	.082	-.137	.014	-.101	.107	.191	.131
in																
	.364	.077	.328	.064	.084	.284	.454	.440	.221	.165	<b>.040</b>	.433	.112	.101	<b>.004</b>	<b>.048</b>

\* 12, 13, 17 nonparametric Kendall's tau\_b coefficients, all others Pearson coefficients

Significance, actual p-values, **bold** < .05

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## CHINA'S EMERGING FEMALE ENTREPRENEUR

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### Abstract

Undergraduate students (N=218) at two Chinese universities completed the Entrepreneurial Attitudes Orientation (EAO) survey. Results indicated that women possessed attitudes which were statistically similar to those of their male counterparts on three of the four entrepreneurial attitudes; however males possessed stronger levels of entrepreneurial self control, and were more likely to express a desire to actually own their own small business and were more likely to believe they were likely to do so. Yet, when consideration was given to past exposure to entrepreneurial activities (either in the form of having worked for a small business or having a family-owned small business), all statistical differences in attitude and future intentions disappeared. The findings of this study provide additional evidence to support the notion that the gender gap in entrepreneurship continues to shrink in middle income countries such as China. Because attitudes and intentions are precursors of entrepreneurial action, an understanding of the attitudes themselves, as well as those factors which may impact them, is a critical step in promoting greater entrepreneurial initiative in nations with rapidly developing economies.

### Introduction

Research suggests that women (Carter, 2000, Thomas, 2001; Heilman & Chen, 2003; Marlow & Patton, 2005) are often faced with greater obstacles when engaging in entrepreneurship, such as lower levels of education and experience, access to fewer resources and social networks, and are less interested in starting a new business venture. Studies have also shown that women entrepreneurs may not be taken as seriously and afforded the same level of respect as their male counterparts (Woldie & Adersua, 2004). Considering these findings, it is not surprising that, according to the Global Entrepreneurship Monitor 2006 *Report on Women and Entrepreneurship* (Allen, Langowitz, & Minniti, 2007) men are twice as likely to engage in entrepreneurial activities as women on a global scale.

Ironically, one country that seems to have embraced an equal access approach to entrepreneurship is China. In general, China has started moving away from its reliance on state-controlled businesses to a greater emphasis on entrepreneurial ventures. This change has led to rapid growth in the Chinese economy over the past decade with much of this success directly linked to a stronger entrepreneurial spirit in the country (Li, Zhang & Matlay, 2003). Interestingly, research indicates that the gender gap for entrepreneurship is shrinking in China, and more women are now involved in early stage entrepreneurial ventures than men (Bosma & Harding, 2006).

### Literature Review

The success of Chinese entrepreneurs has not gone unnoticed by the central government as it has developed more policies that promote business creation and a greater reliance on self-employment. Much like in the U.S., entrepreneurship education is gaining importance in Chinese colleges and universities. While it is still a relatively new concept in China, entrepreneurship

programs have been well received by Chinese students (Li, Zhang & Matlay, 2003). In fact, officials within the Chinese higher education system have suggested that entrepreneurship education will play a highly critical role in the future of its students. An important recommendation from the Global Entrepreneurship Monitor's *2006 Results Report* (Bosma & Harding, 2006) was for middle-income countries like China to encourage a strong commitment to entrepreneurship education in order to develop "fundamental aspects of the entrepreneurial culture" (p. 42). Chinese universities seem to be aware of these needs and are developing more educational programs aimed at strategic planning, product development, technology transfer, and venture creation. The success of new entrepreneurial ventures and a greater inclusion of entrepreneurship education in colleges and universities have allowed many Chinese students to now view self-employment as a viable career alternative.

In a prior study of Chinese undergraduate business students, Moy, Luk, and Wright (2003) found that both men and women had a high level of interest in entrepreneurship, though males were more likely to consider starting a new business venture. The attractions associated with entrepreneurship included greater intrinsic rewards, earning potential, autonomy and independence, and the opportunity to be innovative. The potential barriers were a lack of professional experience and entrepreneurial knowledge, as well as strong competition, risk aversion, and lack of access to financial resources.

In another sample of Chinese business students, Moy and Lee (2002) examined the perceptions of undergraduates toward employment with small and medium-sized businesses versus multinational corporations. Students were asked to rank various attributes to determine their relative importance in making a career decision. The results indicated that business students often place a greater emphasis on extrinsic rewards when assessing employment opportunities. Multinational corporations were viewed more favorably in the attributes of pay, fringe benefits, working conditions, long-term career prospects and marketability, while small and medium-sized businesses were viewed more favorably in terms of managerial relationships and responsibility given.

Despite the traditionally masculine culture within Asia, research reported in the Global Entrepreneurship Monitor's *2005 Executive Report* (Minniti, Allen, & Langowitz, 2006) may lead one to consider that women's attitudes toward entrepreneurship are comparable to men's due to the driving forces behind the entrepreneurial process that are coming into play. Specifically, in middle-income countries, entrepreneurs are more necessity-driven, while opportunity-driven entrepreneurs are more prevalent in high-income countries. This suggests that in China, a middle-income country where both men and women are driven to start businesses under adverse conditions and due to necessity, little consideration is given to the likelihood of failure. Douglas and Shepherd (2002) argue that risk, independence and income are critical factors when evaluating the viability of self-employment. Since prospective entrepreneurs, both males and females, in China are less constrained by the possibility of failure, perhaps they are equally confident in their abilities and possess comparable levels of entrepreneurial attitudes in order to bounce back from any setbacks.

## **Hypotheses**

The theory of planned behavior argues that intention is an antecedent to behavior (Ajzen, 1991), and prior studies have shown that intentions play a crucial role in understanding the entrepreneurial process (Shapiro & Sokol 1982; Krueger, 1993; Krueger & Brazeal, 1994). While entrepreneurial attitudes are partly derived from prior exposure, they can also be learned

through educational programs (Florin, Karri & Rossiter, 2007), and will often vary according to personal characteristics and experiences (Krueger & Brazeal, 1994).

While high-income countries are known for more advanced economic policies and business infrastructure, middle-income countries like China are still in the process of developing the fundamental attributes necessary for business creation. Some of these characteristics include stronger property rights, greater access to capital, and more exposure to educational programs and entrepreneurial opportunities (Moy, Luk & Wright, 2003). Various environmental differences allow entrepreneurs in high-income countries to focus more on opportunities while entrepreneurs from middle-income countries tend to be more necessity-driven.

Past research has indicated that both male and female college students in China are interested in entrepreneurship (Moy, Luk & Wright, 2003). Because the entrepreneurial culture and exposure to entrepreneurial education in China is rapidly improving, the study of entrepreneurial attitudes among nascent Chinese students is warranted. In particular, because both men and women in China are receiving exposure to business education and are approaching entrepreneurship from a perspective of necessity within a rapidly shifting economic paradigm, it is expected that:

Hypothesis 1: There will be no significant differences in the strength of the entrepreneurial attitudes of male and female students, and both will have comparable expectations for future entrepreneurial activities.

Despite our initial hypotheses which posit no differences associated with gender, there exists a significant history of dominant masculine culture in China. One factor which may negate said culture, however, is prior exposure to entrepreneurial activities. Past studies have linked entrepreneurial attitudes and past business exposure. Prior exposure may take the form of working for a small business, or more direct experience such as starting a new business or working within a family business. Research has shown that both work experience with a small business and a family business can have a positive impact on an individual's perceptions of business development (Reitan, 1997; Peterman & Kennedy, 2003). Since attitudes are partly derived from exposure to various entrepreneurial activities and tend to change through an interactive process with the environment, prior work experience or other forms of exposure may play a significant role in shaping entrepreneurial attitudes. As such, we hypothesize:

Hypothesis 2: Where any initial distinctions are found between males and females, prior exposure to entrepreneurial activities will negate said differences in attitudinal strength.

## **Methodology**

### *Participants*

Participants were students enrolled at one of two Chinese universities in courses related to business education. A total of 218 useable surveys were returned. The sample population was divided approximately evenly among males (51%) and females (49%). Participants ranged in age from 18 to 39 years old, with an average age of 21.43 years for the Chinese students. Approximately 99% of the Chinese students were in their second year of undergraduate study.

### *Procedure*

Beginning with the fall 2006 academic year a faculty liaison teaching undergraduate courses in China received an e-mail letter from the research team requesting her voluntary participation. The stated purpose of the study was to examine entrepreneurial attitudes of Chinese university students. The faculty member was asked to request that her students (who were located on two different Chinese university campuses) complete an anonymous online survey during the first few weeks of the semester. Survey completion was entirely voluntary and

no identifying information was recorded. A reminder email was sent out after the first week had passed to encourage participation. Data collection continued until the end of the spring 2007 academic term.

### *Measures*

We measured entrepreneurial attitudes with the Entrepreneurial Attitudes Orientation (EAO) survey instrument (Robinson, Stimpson, Huefner & Hunt, 1991). The EAO is theoretically well grounded and provides a composite score based on four attitude subscales: 1) Achievement in business refers to concrete results associated with the start-up of a business (Cronbach's alpha = .84), 2) Perceived personal control of business outcomes concerns one's perception of control or influence over his or her business (Cronbach's alpha = .70), 3) Innovation in business relates to acting on business activities in novel ways (Cronbach's alpha = .90), and 4) Perceived self-esteem in business which relates to self-confidence with regard to one's business affairs (Cronbach's alpha = .73). Utilizing a sample of 54 entrepreneurs and 57 non-entrepreneurs, Robinson et al. (1991) found that the four subscales were able to accurately predict entrepreneur classification in 77% of cases.

In addition to completing the EAO, participants provided demographic information including gender, age, academic standing, previous exposure to entrepreneurial organizations, and information related to their future entrepreneurial intentions. Specifically, students indicated on a five point scale how much they would like to own a small business, how likely they were to own a small business, and how prepared they felt to own a small business.

### *Analyses*

The primary interest of the current study was to examine what, if any, distinctions exist between the entrepreneurial attitudes of male and female Chinese students. As such, an analysis of variance was conducted to test for differences in the scale scores on each of the four entrepreneurial attitudes of interest as well as the questions related to future entrepreneurial intention. In order to control for previous exposure to entrepreneurial activities, students were grouped according to self-reported past exposure and the analyses were repeated.

## **Results**

The means and standard deviations for all entrepreneurial attitudes of interest are presented in Table 1.

Partial support was obtained for the first hypothesis of the current study. As was anticipated, no significant differences were found between males and females with regard to their entrepreneurial attitudes of achievement ( $f(216) = 1.87, p > .05$ ), innovation ( $f(216) = 3.50, p > .05$ ), and self-esteem ( $f(216) = 1.50, p > .05$ ). Likewise, males and females responded comparably with regard to their feelings of preparation for owning a small business ( $f(216) = .154, p > .05$ ). However, males were found to have a significantly higher score for perceived entrepreneurial personal control ( $f(216) = 6.04, p < .05$ ), and reported a significantly stronger desire to own a small business ( $f(216) = 5.82, p < .05$ ), and felt they were more likely to own a small business ( $f(216) = 4.36, p < .05$ ) than were females.

Hypothesis two was fully supported. The means and standard deviations for all entrepreneurial attitudes of interest when matching prior entrepreneurial exposure are presented in Tables 2 and 3.

When only Chinese students who have previous experience working for a small business are compared, no differences exist between males and females' attitudes of achievement ( $f(29) = .218, p > .05$ ), innovation ( $f(29) = 1.19, p > .05$ ), personal control ( $f(29) = .083, p > .05$ ), and self esteem ( $f(29) = 1.92, p > .05$ ). Unfortunately, too few students who had worked for a small



business in the past answered the questions related to future entrepreneurial intent to draw statistical conclusions; however, an examination of the cell means shows them to be quite similar.

Table 1. Means and Standard Deviations for all Entrepreneurial Attitudes

Entrepreneurial Attitude	Gender	Mean	Std. Deviation
Achievement Scale Score	Males	7.48	.93
	Females	7.30	1.02
Innovation Scale Score	Males	6.68	.79
	Females	6.47	.86
Personal Control Scale Score	Males	7.01	.97
	Females	6.69	.99
Self Esteem Scale Score	Males	6.33	.86
	Females	6.20	.77
Would like to own a small business	Males	4.52	.61
	Females	4.04	1.30
Likeliness of owning a small business	Males	3.79	1.07
	Females	3.22	1.35
Feel prepared to own a small business	Males	2.66	1.57
	Females	2.52	1.20

Table 2. Means and Standard Deviations for all Entrepreneurial Attitudes – Worked for a Small Business

Entrepreneurial Attitude	Gender	Mean	Std. Deviation
Achievement Scale Score	Males	7.40	1.17
	Females	7.56	.76
Innovation Scale Score	Males	6.94	.68
	Females	6.71	.45
Personal Control Scale Score	Males	6.70	1.30
	Females	6.80	.60
Self Esteem Scale Score	Males	6.41	1.00
	Females	6.01	.60
Would like to own a small business	Males	5.00	Cell N too small to compute statistics
	Females	4.85	
Likeliness of owning a small business	Males	5.00	
	Females	3.00	
Feel prepared to own a small business	Males	4.00	
	Females	4.00	

Table 3. Means and Standard Deviations for all Entrepreneurial Attitudes – Family Owned a Small Business

Entrepreneurial Attitude	Gender	Mean	Std. Deviation
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Achievement Scale Score	Males	7.46	1.06
	Females	7.36	1.04
Innovation Scale Score	Males	6.55	.88
	Females	6.42	.70
Personal Control Scale Score	Males	6.89	1.05
	Females	6.77	.81
Self Esteem Scale Score	Males	6.30	.81
	Females	6.03	.71
Would like to own a small business	Males	4.38	.67
	Females	4.75	.96
Likeliness of owning a small business	Males	4.14	.85
	Females	3.75	.96
Feel prepared to own a small business	Males	2.47	1.33
	Females	2.25	1.26

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Results for those who had prior exposure via a family owned business were also consistent with what was hypothesized. Among these students, no differences existed between males and females with regard to their attitudes of achievement ( $f(70) = .155, p > .05$ ), innovation ( $f(70) = .475, p > .05$ ), personal control ( $f(70) = .292, p > .05$ ), and self esteem ( $f(70) = 2.24, p > .05$ ). Nor were significant differences found for wanting to own one's own business ( $f(23) = .899, p > .05$ ), likeliness to own one's own business ( $f(23) = .689, p > .05$ ), nor feelings of preparation for owning a small business ( $f(23) = .099, p > .05$ ).

### Discussion

As expected, the entrepreneurial attitudes of female Chinese students were generally similar to those of their male counterparts, excluding the construct of personal control. While male students indicated a stronger desire to own a small business and felt that they were more likely to actually own a business, these differences were negated when past entrepreneurial experience was considered. These findings are highly consistent with those of Jones (2000), who found that Brazilian male and female entrepreneurs had similar dispositions and did not differ with regard to entrepreneurial growth plans. He concluded that cultural differences could override socialized sex-conditioning. With exposure to previous entrepreneurial activities acting in much the same way as culture, young women's attitudes may very well supersede the traditional masculine sex-conditioning found in the Chinese economic culture.

Although the results were mixed, these findings provide preliminary evidence of a more level playing field for aspiring female Chinese entrepreneurs, thereby supporting the conclusion from the Global Entrepreneur Monitor's *2006 Report on Women and Entrepreneurship* (Allen, Langowitz, & Minniti, 2007) that the gender gap between men and women entrepreneurs is shrinking. Also indicated in that same report was that the number of early stage entrepreneurial ventures started by women in China now exceeds the number of businesses started by men. A possible reason may be that self-employment is viewed as a survival strategy in countries with economic and institutional deficiencies (Woldie & Adersua, 2004). The existence of more women Chinese entrepreneurs is especially exciting because it will provide future women with access to a greater number of potential mentors and role models for entrepreneurial advice and guidance, possibly eliminating a previously identified obstacle. In addition, an influx of new role

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models can help aspiring female entrepreneurs build greater self-confidence and learn to view themselves as viable candidates for business ownership (Brindley, 2005).

A notable distinction between the Chinese entrepreneurial environment and that of other middle-income countries is the education levels of early stage entrepreneurs. While female entrepreneurs in many middle-income countries are less educated and focused on short-term goals, research shows that female Chinese entrepreneurs are often educated and more interested in long-term development versus merely establishing a new business venture (Allen, Langowitz, & Minniti, 2007). This makes it even more important for Chinese universities to offer entrepreneurship education programs that provide young adults with a skill set aimed at both business creation and long-term strategic planning. Fortunately, officials at these institutions seem to be aware of this need and have placed a greater emphasis on entrepreneurship within the overall business curriculum (Li, Zhang & Matlay, 2003).

It may be that educational attainment and experience are the two ingredients, which in unison, work to create an effective skill set for becoming a successful entrepreneur. Prior research seems to indicate that Chinese entrepreneurs may be more like their counterparts in high income countries, such as the U.S. Studies have shown that increasing numbers of individuals in China, both men and women in the 25-34 year old age group, are interested in entrepreneurship (Bosma & Harding, 2006). Furthermore, entrepreneurship education has become more prevalent in Chinese colleges and universities since the 1990s. When taken together, these two factors point toward a likely surge in entrepreneurship and small business development as this demographic enters the workforce.

### **Future Research**

The findings of this study provide additional evidence to support the notion that the gender gap in entrepreneurship continues to shrink in developing countries such as China. Therefore, it would be of interest to study the entrepreneurial attitudes of young adults in other middle-income countries, especially in more under-developed regions such as Eastern Europe and Sub-Saharan Africa.

Although some may find issue with the use of a student population, there is inherent value in specifically studying students. While it is acknowledged that students' attitudes may not equate to the attitudes of active entrepreneurs in China, they are arguably an appropriate population of interest since recent research states that Chinese entrepreneurs are often well educated and fit the age demographic of recent college graduates (Bosma and Harding, 2006). An understanding of the attitudes of those who are currently students can provide us with insight as to those who may become future business owners and allows for the development of education and other interventions that can promote the success of nascent entrepreneurs. In addition, because of the relative newness of individually owned businesses in China, the current generation of students may well represent the first generation of future entrepreneurs receiving university-based instruction in the entrepreneurial arena (Li, Zhang & Matlay, 2003).

Because attitudes and intentions are precursors of entrepreneurial action, an understanding of the attitudes themselves, as well as those factors which may impact them, is a critical step in promoting greater entrepreneurial initiative in nations with rapidly developing economies.

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## WOMEN IN FAMILY FIRMS: CHARACTERISTICS, ROLES, AND CONTRIBUTIONS

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*“Historically family business configurations have focused on the male founder and his heirs. Mothers, wives, daughters and female in-laws have often been represented in family tress but without job titles and salaries next to their names. The strength of traditional family roles, both within society and within individual families, kept women’s contributions from being acknowledged.” (Lyman, Salganicoff, & Hollander, 1985:47)*

### **Introduction: Theoretical Contributions**

Theorists suggest that the family firm is a productive environment for women (Hollander & Bukowitz, 1990) allowing them freedom and access to potentially better jobs (Salganicoff, 1990a) including leadership opportunities than in the corporate world with its glass ceilings (Daily, Certo, & Dalton, 1999). In addition, the family firm offers work schedule flexibility, access to traditionally male-oriented businesses, job security (Salganicoff, 1990b) as well as greater opportunities for advancement (Lyman, 1991).

What do women contribute to the family firm and to their larger communities? Since entrepreneurial research on women is comparatively underdeveloped (Baker, Aldrich & Liou, 1997), this paper integrates some research from sociology and leadership.

Women humanize the workplace (Edlund, 1992; Salganicoff, 1990b) since they are socialized to nurture (Gilligan, 1982; Belenky, Clinchy, Goldberger & Tarule, 1986). They are the carriers of the family culture within the firm (Hollander & Bukowitz, 1990) which may be associated with collectivist values of sharing, respect, and cooperation (Sillars, 1995). Their lives are organized around their family’s needs, while men’s lives are organized around their work (Gillis-Donovan & Moynihan-Bradt, 1990: 156).

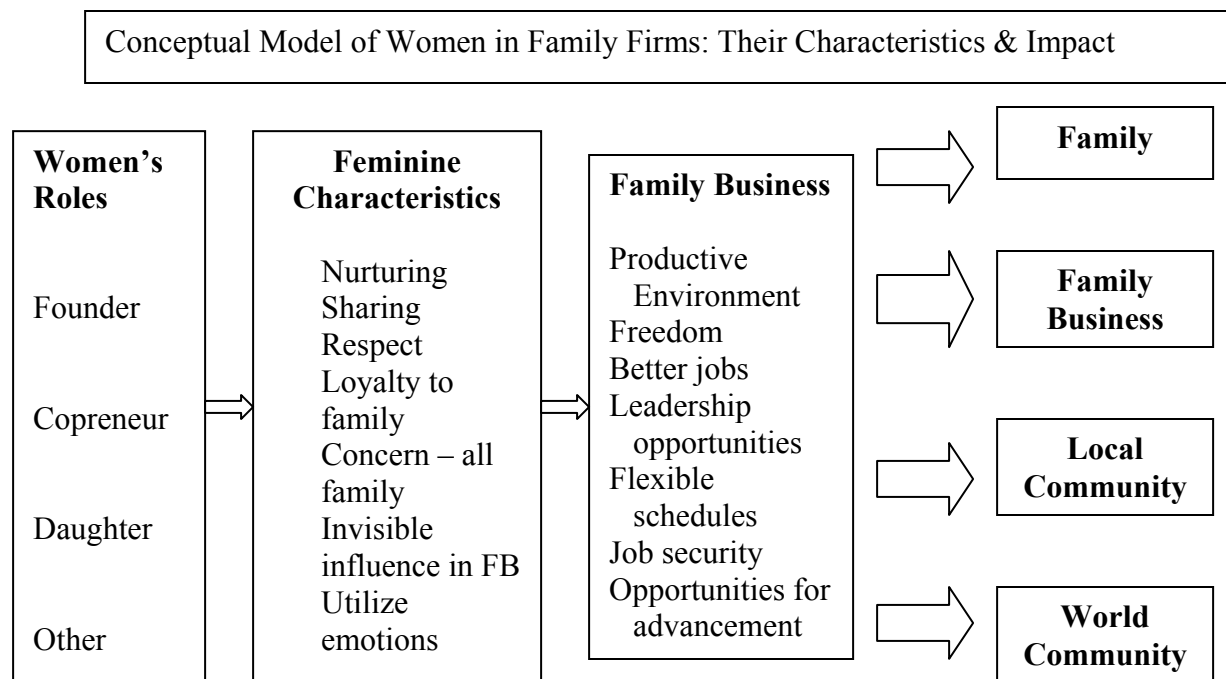
Women show loyalty to both the business and family, focusing their concern on the individual needs of all members. This dual loyalty and concern, as well as role and judgment flexibility are vital to the success of the family firm (Salganicoff, 1990b: 131). These characteristics enable the women in the family firm to provide support; solve problems; resolve conflicts; hold the family together; and keep the peace (Salganicoff, 1990b). In addition, although women may not hold a formal role and tend to be “invisible”, they often wield “unacknowledged power and influence in the family business” (Gillis-Donovan & Moynihan-Bradt, 1990: 153). Marshack (1998: 130) suggests that women’s invisibility may be due to

developmental differences in that “men move toward individuation and autonomy”, while “women move toward intimacy and affiliation”.

In an innovative critique of the trend toward advantages of the “feminine in management” (i.e. Helgesen, 1995; 1998; Loden, 1985; Schwartz, 1992), Calas & Smircich (1993) warn against women just becoming the caretakers for the domestic country while men move on to the greater advantages of working in the global arena. They suggest a more radical view of women’s strengths that can be applied including that of the “frugal housewife” conserving and sharing scarce resources to create a better life for all; women’s ingenuity enabling an appreciation of talents sometimes overlooked, like being able to make do with less; and women’s ability to utilize her emotions and become enraged over worldwide exploitation in the name of progress (Calas & Smircich, 1993). This radical view suggests that women impact more than just their family firms. Their strengths can contribute to the larger community as well. The theoretical contributions for women in family firms are summarized in Table 1 below.

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**Insert Table 1 about here**  
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A conceptual model is crafted below using the literature mentioned above. Characteristics of women are given opportunity to flourish within the family business environment and through the women’s roles in the family business impact family members, the family business, the local community and in a larger sense the world community.



## Research about Women in Family Firms

Almost two decades ago, *Family Business Review* devoted a special issue to women in family business (Gersick, 1990), in which the editor suggested that “we are just beginning to understand the role of women in family businesses; their influence and contribution have not received the attention they deserve; and the survivability of many family businesses in the future will depend on more awareness of, and more options for, women” (Gersick, 1990: 119). *Family Business Review* (Nelton, 1998) called for more research on women in family firms, noting that if women in family firms followed the same trend as women entrepreneurs, in 25 years, over 1/3 of all family firms would be owned and led by women. In spite of this, the existing research on women in family firms is still scant (Hamilton, 2006). The Family Firm Institute’s 2007 Body of Knowledge listed only 5 articles and one book in their reference section under “Women in Family Business” and acknowledged that the literature had not addressed women’s contributions until recently (Hoy, 2007). This paper will address the literature based on the women’s role as founder, co-preneur, wife, and daughter and through the lens of impact on family, business, stakeholders, and community.

### Founders Impact On Business, Family, Stakeholders, and Community

Research on gender differences among entrepreneurs suggests that women are equally successful (Fisher, Reuber, & Dyke, 1993; Kalleberg & Leicht, 1991; Rutherford & Oswald, 2000), but use different techniques to accomplish that success; they use similar strategic decisions and venture innovation and risk although they are less satisfied with their venture performance (Sonfield, Lussier, Corman, & McKinney, 2001).

Research on women in family firms has been conducted around the world. In Indonesia, the involvement of family members in the business had a positive impact on the performance of the female-owned enterprise (Singh, Reynolds, & Muhammad, 2001). In France, men and women were similar in the motivations of independence and self-accomplishment, but women valued prestige attributes less and economic development and providing jobs more than did men (Orban, 2001). In Mexico, women entrepreneurs found satisfaction in achieving professional and personal goals, being independent, creating employment opportunities and satisfaction for customers, creating an inheritance and being useful (Zabludovsky, 1998: 5).

Within the U.S., in a comparison study of male and female family business owners, women’s “cooperative networks of relationships” orientation (Brush, 1992) was tested and supported along with the finding that women tended to have a higher concern for stakeholders, a stronger preference for using network and team structures, and that collaboration was more important for women’s business outcomes (Folker, 1999; Folker & Sorenson, 2000).

A qualitative pilot study of U.S. women family business owners found that women display two distinct behavioral patterns in their family firms: family first and business first (Folker, 2004). Fitzgerald & Folker (2005) studied the influence of a female business owner’s orientation towards prioritizing business or family needs first on the success of the business and the family and found that female business owners differed on their orientation towards business or family first; low levels of family/business tension were related to higher family functionality;



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and prioritizing family needs was a positive and statistically significant predictor of family functionality

### **Co-preneurs & Spousal Impact on Various Communities**

As co-preneurs, women noted the importance of collaborative decision making (Smith, 2000). Interestingly, Marshack (1994) found co-preneurs to be more traditional in roles while dual-career couples were more egalitarian. As wives in the family firm, their contributions were substantial and critical to the success of the family firm including the fact that the firms reported higher household income (Rowe & Hong, 2000). In addition the wives tended to take leadership roles in the founding of the family business (Hamilton, 2006). Wives tended to fulfill various functional roles from facilitating and mediating within the family to being the trusted employee to instilling the value of the business in their children (Poza & Messer, 2001). These wives saw their purpose as one of being a steward for the family and instilling the sense of community for all (Poza & Messer, 2001). Spouses tended to have “different spheres of influence” with the wives having more influence in the home (Wicker & Burley, 1991). This home influence allows the wives to integrate their values of family, business, and community and instill them in their children.

### **Daughters Impact on Community**

Daughters in the family firm tend to struggle with both self-identity and proving their competence in the family firm (Barnes, 1988). Daughters in family firms sometimes struggle for their father’s attention (Dumas, 1989). Some daughters’ primary motivation was caring for the father through listening, admiring, supporting, and encouraging their father. These daughters found their identity through this care of their father and his business (Dumas, 1989). In a majority of the cases, the daughters had no voice - unable to speak up on their own behalf or take charge of the business, they passively accepted their position bringing about a sense of alienation. These women operated as silent caretakers and did not find their identity in the business (Dumas, 1989).

Despite education and experience, daughters were not considered for the family business until a crisis or organizational transition forced the family to consider them and then many times it was seen as a temporary situation (Dumas, 1992). In an examination of the daughter successors of both male and female family business owners, Vera & Dean (2005) found that the daughters had difficulties with work-life balance and did not assume they would be the successor. The daughters who succeeded their mother in the business experienced succession difficulties in being compared to their mother’s managerial style (Vera & Dean, 2005).

### **General studies of women in family firms**

Even though men and women play the same roles, and women advance as fast as men do

when they choose to, even women treat other women as invisible (Cole, 1997). Perhaps this is due to the interpersonal networks of women in family firms, which are dominated by family members (Lyman, 1988), influencing the activities in which they engaged. Although women were a strong presence in the family firm, they tend not to have substantial ownership although daughters of the CEOs had an advantage over wives (Dumas, 1998). The empirical literature is summarized in Table 2.

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 Insert Table 2 about here  
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## Discussion

As we explore the literature on women in family firms, we note the existing research and recognize the contributions that women make and the impact they have on their surrounding communities including family, business, stakeholders, and the larger community.

Within the family community, women focus on relationship building, involving family members in the business, helping them to understand the importance of the business to the family and vice versa.

Within the business, women network and integrate their worlds such that they have a positive impact on the business performance and reputation. Women's impact on other stakeholders within the firm, customers and employees is also based on their relational focus.

Finally women in the family firm also impact the larger community with economic development, a focus on jobs and the environment.

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**Table I**

Contributions from Theory about Women in Family Business

<b>Author</b>	<b>Theoretical Contribution</b>
Hollander & Bukowitz, 1990	Productive environment for women; women are carriers of the family culture
Salganicoff, 1990	Freedom and access to potentially better jobs; women have loyalty, flexibility, and sensitivity – help keep the peace
Marshack 1998	Women’s invisibility may be due to developmental differences
Daily, Certo, & Dalton, 1999	Better leadership opportunities than in the corporate world
Gillis-Donovan & Moynihan-Bradt, 1990	Organize life around their family’s needs; wield unacknowledged influence
Lyman, 1991	Greater opportunities for advancement

**Table 2**  
**Women in Family Firms Empirical Literature**

<b>Role</b>	<b>Author(s)</b>	<b>Findings</b>
		Business
Founder	Fisher, Reuber, & Dyke, 1993; Kalleberg & Leicht, 1991; Rutherford & Oswald, 2000	Equally Successful
Founder	Folker, 2004	Women founders display 2 distinct behavioral patterns: family firm or business first
		Family
Founder	Singh, Reynolds, & Muhammad, 2001	Family members in business have positive impact on performance
Founder	Fitzgerald & Folker, 2005	Founder's prioritizing of family's needs lead to higher family functioning
		Stakeholders & Community
Founder	Orban, 2001	Value participating in economic development and providing jobs
		Focus on creating employment

Founder	Zabludovsky, 1998	opportunities and satisfaction for customers, creating an inheritance and being useful
Founder	Folker, 1999 Folker & Sorenson, 2000	Women have a “cooperative networks of relationships” orientation with a higher concern for stakeholders, a stronger preference for using network and team structures.
		Family
Co-preneur	Smith, 2000	noted the importance of collaborative leadership & DM

Co-preneur	Marshack, 1994	The co-preneurs were more traditional in their roles while the dual-career couples were more egalitarian
		Business
Spouse	Rowe & Hong, 2000	wives' participation varied greatly; FB with wives' participation had higher household income
		Family & Community
Spouse	Poza & Messer, 2001	Spouses fulfilled various functional roles; saw themselves as the "stewards of the family legacy" to instill "community"
Spouse	Wicker & Burley, 1991	spouses had "different spheres of influence" with the wives having more influence in the home
Spouse	Hamilton, 2006	Although not the owner-manager, women take leadership roles in founding the family business
		Family & Business
Daughter – Father	Barnes, 1988	Daughter's struggle to prove



		competence
Daughter- Father	Dumas, 1989	Daughters' struggle for attention; Silent Voice Caretakers Caretaker for Father & Business Identity
Daughter- Father and/or Mother	Vera & Dean, 2005	Daughters experienced work-life balance difficulties; didn't assume they would be the successor. Mother's daughters successors were compared to her managerial style
General	Cole, 1997	Even women treat women as invisible
General	Lyman, 1988	Family members dominate interpersonal networks
General	Dumas, 1998	Strong presence in FB but not in ownership

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## DETERMINANTS OF SME RESPONSES TO ENVIRONMENTAL ISSUES

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### INTRODUCTION

Turkey has been experiencing many economic changes since 1990's, which are mainly structural such as privatization, price liberalization and integration in to the European Union. Moreover, since the crisis in the 2001, Turkey became one of the countries representing a high pace of growth among OECD countries, reduced inflation levels and making a good progress towards a stronger and sustainable growth path (OECD Policy Brief, 2006). These are also associated with reforms in the government and public administration (OECD, 2002). Moreover, association between economic growth and environmental and social progress has been recognized in planning for related changes (OECD, 1999).

According to the "Turkey's Environment" report prepared by Regional Environmental Center in 2004, environmental concerns started in 1970s. In 1978, Prime Ministry Undersecretariat for Environment was founded as the institution which was expected to set environmental policies, prepare and coordinate regulations. After more than a decade, it was converted to Ministry to Environment in 1981 while expanding its responsibilities. Today, the Ministry of Environment, which was merged with Ministry of Forestry and became the Ministry of Environment and Forestry, has responsibilities such as appropriate land use, conservation of natural resources, protection of plant and natural species, prevention of pollution and raising public awareness and much more (REC, 2002). As the same report implies, Turkish Environmental Law came in to force in 1983 and it states that environment should be taken as a whole which is the responsibility of both state and citizens and it also stated in the law that in every economic activity and operation, environmental damage should be minimized. According to the website of the Ministry of Environment and Forestry (<http://www.cevreveorman.gov.tr>), its most recent modification was done in April 2006. Along with the Turkish Environmental Law there are several regulations such as Air Quality Control Regulation (1986), Water Pollution

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Control Regulation (1988), Noise Control Regulation (1986), Control of Solid Waste Regulation (1991), Environmental Impact Assessment Regulation (1992), Regulation on Control of Medical Waster (1993), Control of Toxic Chemical Substances and Products Regulation (1993), Control of Hazardous Wastes Regulation (1993).

Turkey is in the challenging era of harmonizing economical development and environmental sustainability. Moreover, the country is highly centralized with its government being highly involved in all economical activities. Therefore, there are many regulations, laws and other measures organized for protecting the environment while ensuring the economical growth. While the main regulator is the Ministry of Environment and Forestry, the State Planning Organization is also involved in sustainable development of the country. State Planning Organization has the power to include environmental concerns into the investment proposals which are financed by public funds. However, Turkey's centralized administration and lack of involvement of local authorities makes it harder to act reduces the enforcement capability (REC, 2002; OECD, 1999).

Currently, the per capita discharges and emissions averages are low for Turkey, compared to the other OECD countries. However, there is still a long and hard road waiting for Turkey which requires strengthened environmental efforts from central government, municipalities and public sector towards the environmental success comparable the other members of OECD (OECD, 1999).

This paper is on a research on factors influencing environmental commitment focusing particularly on SMEs in Turkey. It is stated in the 2004 Organization for Economic Co-Operation and Development (OECD), "Small and Medium Enterprises (SMEs) in Turkey" report, that SMEs play a very important role in the Turkish economy, due to their number and the large share of the workforce employed (European Union Commission Recommendation, 2003). According to the OECD report published in 2004, the estimates showed that in 2000 SMEs constituted 99.8% of the total number of enterprises, 76.7% of total employment, 38% of capital investment, 26.5% of value added, about 10% of exports and utilize 5% of available bank credits. Moreover, also as indicated in the same report, relatively smaller proportion of the SMEs is operating in the manufacturing sector. In 2001 there were 210,000 of them which employ 1,597,538 people and which were responsible for the 34.5% of the total value added in the industry. The manufacturing sector distribution is reported as 26.1% metallic goods, 25.6%

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clothing, textile and leather goods, 24.3% wood and furniture, 12.7% food and drink, 3.9% paper and 7.4% other sectors. Moreover, they are generally micro-sized industries, since the average number of employees is 4.8 for them (OECD, 2004).

## **ENVIRONMENTAL COMMITMENT AND ITS DETERMINANTS**

With the economic development along with environmental sustainability as mentioned above, the determinants of Turkish firms' managerial responses to environmental issues which can be public awareness, governmental regulations, requirements of buyers, non-governmental and civil organizations, and other stakeholders; are of considerable interest. The environmental demands and requirements include not only satisfying the minimum standards of environmental protection but also the increased commitment of the firm to constant improvement of environmental standards through activities such as environmental monitoring, formal reporting and validation of environmental performance by independent auditors (Nakamura, Takahashi, and Vertinsky, 2001).

A firm's size is an indicator of its resources, in other words, a large firm has more financial and non-financial resources which can be used to integrate environmental concerns to operational activities and product life cycles. Moreover, large firms' activities are more noticeable, exposing them to greater external pressures. However, since environmental sensitivity and green corporate practices require a flexible and less formalized structure (Noci and Verganti, 1999), smaller firms may adopt these practices faster (Lefebvre, Lefebvre and Talbot, 2003).

As Lefebvre *et al.*'s research results imply existence of an aggressive technology policy in the firm and anticipated future financial or commercial opportunities are the primary determinants of environmental performance. Other internal factors like the presence of total quality management (TQM) program or a comprehensive environmental policy is associated with environmental success. Product characteristics such as; whether the product is exported or whether they are consumer goods are found to be related performance. Among external factors, pressure groups are among the drivers of change. According to the authors, the size of the company, customers' sophistication, and product prices showed no impact on firms'

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environmental performance. Same research also concluded that greening of a firm is largely related to managerial and technological developments and innovations. Since such developments enhances the organizational learning, the resultant knowledge spreads around the supply chain of the firm, affecting attitudes of customers and suppliers. Particularly, the ISO 14001 certification is found to multiple the speed of deployment of the performance along the supply chain (Lefebvre *et al.*, 2003).

Other external factors may be counted that compel the companies adopt responsibility in making changes in effective management of environmental issues. These are mainly competitive forces, economic and political forces, global forces, demographic and social forces and ethical forces (George & Jones, 2002). The demands by regulations, customers etc. are actual forces on the company, forcing it to change. However, there may be forces such as the lobby group pressures and firms' financial success indicators within the company which might create resistance and drag the company towards other directions. While regulatory stakeholders (regulators), community stakeholders (environmental organizations, community groups, other special interest groups), organizational stakeholders (employees, suppliers, buyers), and media sometimes force companies to upgrade their environmental quality (Henriques & Sadorsky, 1999), competitive forces generally push firms to decrease elevated environmental costs (Wally & Whitehead, 1994).

The aim of this study is to examine what factors influence the environmental commitment decisions given by the managers of the SMEs, in a developing country like Turkey. Literature suggests that managers who are faced with more external (e.g., media, government regulations, etc.) and internal (e.g., employees, suppliers, top managers, etc.) pressures tend to show greater levels of responsiveness. This finding needs to be replicated for the Turkish sample. In order to test our predictions, five hypotheses are presented:

*Hypothesis 1:* The personal beliefs of the managers of SMEs about the relationships between the natural environment and mankind will positively affect the environmental commitment of their firm.

*Hypothesis 2:* The institutional and social pressures on the managers of SMEs will positively affect the environmental commitment of their firm.

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*Hypothesis 3:* The confidence of the managers of SMEs in their and their firm's ability to control its impact on the environment will positively affect the environmental commitment of their firm.

*Hypothesis 4:* The accepted environmental governance principles will positively affect the environmental commitment of their firm.

*Hypothesis 5:* The perceived personal and firms' responsibilities for the environment will positively affect the environmental commitment of their firm.

## RESEARCH METHOD

### *Participants*

Thirty-seven participants filled out the questionnaire for this study. The participants were recruited in expositions, where the high level managers or owners of the SMEs had stands which presented their products to possible clients.

Two participants were excluded from the analysis, as they left more than half of the questions blank. Two of the participants were female (5.7%) and remaining 33 were male (94.3%). The age of the participants ranged between 23 and 57, with the median age 37. Among the participants, 13 were the owners of the company (37.1%), 3 were CEO (8.6%), 1 was the partner (2.9%) and 18 of them were higher level managers (51.4%). The education level of the participants ranged from primary school to master's degree, where the education level of seven (20%) was primary school and 10 was high school (28.6%). Eleven of the participants had a bachelor's degree (31.4%) and 7 of them had a master's degree (20%). The tenure of the participants ranged between 1 to 32 years. The participants' companies were representing different sectors; 16 of them operated in the shoe sector (45.7%), 2 of them in the package sector (5.7%), 6 of them in the construction sector (17.1%), 10 of them in the agriculture sector (28.6%) and 1 of them in the textile sector (2.9%). The age of the companies (number of years since it was established) ranged between 1 to 50 years, and the size (number of employees) was between 2 and 150. Only one of the companies had a union of itself (2.9%) whereas 11 companies had quality certificates (31.4%). Fourteen of the managers indicated donations to nonprofit organizations that deal with environmental issues (40%), and 22 of the managers indicated that

they used one or more of the environment protection systems (i.e., waste disposal, recycling, etc.). Twenty seven of the companies supply their water from the municipalities and from other public resources (77.1%) whereas 6 of them supply their own water.

### ***Instruments***

The Turkish translation of the “Determinants of Managerial Responses to Environmental Issues” (DMREI) scale, which was developed by Nakamura, Takahashi, and Vertinsky (2001) was used for this study. The scale was translated into Turkish by the researcher and faculty fluent in English was asked to review validity of the translation. The complete scale translated in Turkish was used which included 42 items. The responses to the items were anchored on a 6-point Likert scale, which ranged from 1 (Totally disagree) to 6 (Totally agree). An additional 10-item “Environmental Concerns” scale which measures the concerns of the participants regarding the environmental problems was also used in the study (Pets, *et al.*, 1998). The responses to each item on this scale were given on a 3-point scale, where the first point was “Does not concern me”, the second point was “Concerns me somehow” and the third point was “Concerns me very much”.

The questions in the DMREI were grouped into six categories as determined by Nakamura *et al.* (2001). The first group was named “Firm’s Environmental Commitments” (COMMIT) and consisted of the first 16 statements and later served as the dependent variable of this study.

The second group was named “The Personal Beliefs about the Relationships between the Natural Environment and Mankind” (BELEFS) (items 16 to 20), the third group “Institutional and Social Pressures” (PRESSURE) (items 21 to 26), the fourth group “Confidence in their and their Firm’s Ability to Control its Impact on the Environment” (ABILITY) (items 27 to 31), the fifth group “Accepted Environmental Governance Principles” (GOVERNANCE) (items 32 to 37) and finally the sixth group “Perceived Personal and Firms’ Responsibilities for the Environment” (RESPONSIBILITY) (items 38 to 42). The last 5 groups were the independent variables for this study.

Prior to the DMREI, questions regarding the demographics of the manager or the owner (e.g., age, gender, education level), and about his/her company (e.g., sector, size, certificates of the company, etc.) were asked.

### ***Procedure***

The participants for this study were selected from three different trade fairs in Ankara: AYMOF Shoe Fair (with 104 participant firms) TURKEYBUILD Construction Fair (189 firms), AGROTECH Agriculture and Food Products Fair (60 firms) where the firms established fairstands<sup>2</sup>. In each fair, the researcher visited the fairstands and checked first whether the firm could be considered as an SME. In the TURKEYBUILD Construction Fair, more than 40% of the firms were large firms (i.e., having more than 250 employees or annual turnover over 50 million Euros), thus they were not requested to fill the questionnaire. Later, the firms which could be considered SMEs and whose high level managers or owners were present at the fairstand were given explanation on the aim of the study and told that participation was on a voluntary basis. Eighteen high level managers or firm owners filled out the questionnaire out of the 104 firms in the AYMOF Shoe Fair, 7 out of 189 filled it in the TURKEYBUILD Construction Fair, and 10 out of 60 in the AGROTECH Agriculture and Food Products Fair. The overall return rate for the study was 15%. When the firms that did not attend the exposition although their names were listed in the brochures is considered, this return rate may rise up to 20%.

## **RESULTS AND DISCUSSION**

First of all, the independent variables and the dependent variable were analyzed for internal consistency. The Cronbach's Alpha values for variable COMMIT was found to be .95 (16 statements), BELIEFS ( $\alpha = .70$  with 4 statements), PRESSURE group ( $\alpha = .71$  with 5 statements), ABILITY variable ( $\alpha = .73$  with 3 statements), GOVERNANCE ( $\alpha = .84$ ) and RESPONSIBILITY variable ( $\alpha = .41$  with 3 statements).

When the bivariate correlations among the dependent and independent variables were taken, COMMIT was found to be significantly and positively correlated with RESPONSIBILITY, BELIEFS, and PRESSURE. When the independent variables were entered into a regression equation together, it was seen that they explained a total of 55% of the variance

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<sup>2</sup> These numbers are those given in the exposition brochures, and may not reflect the actual numbers as some of the firms did not attend the exposition.



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in the dependent variable ( $R^2 = .547, p < .001$ ). When the independent variables were entered into the regression equation one by one, BELIEF ( $\beta = .429, p < .05$ ), PRESSURE ( $\beta = .760, p < .001$ ) and RESPONSIBILITY ( $\beta = .607, p < .01$ ) were found to make a significant contribution to the regression equation. The effects are as predicted by the hypotheses, as the institutional and social pressures, the personal beliefs about the natural environment and mankind, and the perceived responsibilities had a positive effect on the environmental commitments of the firms, as reported by the managers.

As stated in the Results section, the environmental commitment of the firms was found to be higher when the institutional and social pressures on the SMEs, the personal beliefs about the natural environment and mankind, and the perceived responsibility of the managers were higher. These findings validate the hypotheses 1, 2 and 5. Social pressure was a significant factor, probably because Turkey is a relatively collectivist country and the pressures of different external factors increase commitment to environment related strategies. Pressures of media, state through laws and regulations and other firms in the industry were significant in shaping company commitment in terms of reflecting environment in the strategy. Perceived responsibility was also an important factor, as the managers want to comply with the rules and regulations determined by the government, in order to feel that they are doing their own fair share of contribution, but no more. The personal beliefs about the natural environment and mankind were also influential as people are generally aware of the environmental problems, especially with the help of the awareness created for global warming by the media and other parties, which imply that global warming is a result of human behavior. Thus, this awareness has influence on the managers' commitments to the environmental practices, as they might see that their behaviors are linked directly to the policies aiming at protection of the environment.

To sum, the analysis reveals that the positive attitude mainly results from the social and institutional pressures and then by managers' personal beliefs about environment.

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# GREEN ROOF TECHNOLOGY IN GERMANY AND THE UNITED KINGDOM

**George Puia, Saginaw Valley State University**

## **Introduction: How About Green Roofs**

### **Think About a Roof**

When thinking of a roof, one thinks of hot shingles and sticky tar, or a pad of cement where only Spiderman dwells, but why can't it be more? Why can't this open space be put to use? What types of things can a roof be used for that are beneficial in many ways? Why not put back what was originally there, before houses, before skyscrapers, before man's foot of carbon came stomping down with no concern for the future? How about green roofs.

Now when I say green roofs, I don't mean roofs that are green in color but I mean roofs that are living, roofs full of grasses, shrubs, flowers and trees, where birds can sing and insects can buzz, and people can get away from the craze of the city and finally have some peace and quiet even if it is only for a moment. These green roofs have so many benefits it is unbelievable.

### **Now Think About a Green Roof**

When thinking about a green roof, many questions arise, such as: Well, if green roofs are so beneficial then why doesn't everybody have them? Are they hard to get? Do they cost a lot? Are there any different types of green roofs currently available? Is there some catch or side effect that makes having a green roof undesirable? And if everything about them is good, why are some countries so far behind in the greening of their roofs?

All interesting questions, all with very valid, positive responses, but the most interesting of the questions pertains to the difference between countries. Some countries are rapidly increasing their number of green roofs, while others are just getting into it, and yet others still live in huts made from all natural materials. The topic of third world countries and their "all natural" housing is not going to be discussed, but the other two trends are.

### **Why Some Countries and Not Others**

What types of things determine the level of green roofing a country does? Are there economic concerns? Is it just a question of their education on the topic? Are there reasons beyond the control of the people in the country that prevent them from getting into green roofing? Does their culture help or hinder the implementation of green roofing. Are there a number of government subsidies that reward a company or individual for having a green roof? What characteristics do countries with green roofs have that others do not?

These questions can be answered by taking a look at two European countries that have differences in their level of green roofing: Germany and the United Kingdom. These two countries are interesting because many aspects of their lifestyle are the same but the amount of

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work they do with green roofs is noticeably different. This difference is useful in answering many questions such as the above, and helping other countries to take steps forward in the green roof process.

## **Looking Deeper**

Now let's take a deeper look at the ways in which green roofing is done and the reasons it is more prevalent in some countries. Many of the most common concerns about green roofs can be easily answered and will be. The reason(s) why Germany is leading in green roof technology, much more than the United Kingdom, is the biggest question that arises.

## **German Culture**

### **History**

As many know, Germany is plagued with being the center of World War I and II, which, needless to say, did not help the German Economy. Many reparations were made and great humiliation came to Germany, and on top of it all World War II left the country divided. With Western Germany under the Federal Republic of Germany, set up by the Western Allies, and Eastern Germany under the German Democratic Republic, set up by the Soviets, it was hard for the country to advance. The Berlin wall was set up to keep people from fleeing the German Democratic Republic and it separated Western and Eastern Germany quite efficiently and "remained a symbol of the Cold War until late 1989 when it was opened to traffic on both sides" ("Federal Republic of Germany" 117-120).

When the wall was finally torn down on October 3, 1990, the great difference in advancement between the West and East was apparent. Being under a democratic form of government, Western Germany was in a lot better condition than the socialist Eastern Germany. After sixteen years of growing together Germany is totally united and practically equal socially and economically throughout the country.

### **Population and Language**

Germany has a population of more than 82 million. Most of the people live in urban areas but a small percent of the population still resides in rural areas. Much of the population is comprised of ethnic Germans, but still 20 percent is made up of immigrants from Yugoslavia, Italy, Greece, Poland, and Denmark. Even with this immigration, German is still the only official language of the country. The dialect of the language varies from East to West and much of the country understands English and Russian.

### **Religion and Attitudes**

Even though "Germany is essentially a Christian, but secular, society" ("Federal Republic of Germany" 117-120), "over 50 percent of Germans attend church on a regular basis" ("Culture of Germany"). There is some what of a division of religions in the country. Most of the south and west is comprised of Catholics, while Protestants make up the majority of the north and east regions. Even though about a quarter of the German population does not have an official religion, the general attitude of the country is honest, industrious, thrifty and orderly. A lot of

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emphasis is put on being intelligent and skillful, so Germany has come to be a country of great opportunity and freedom.

## **Lifestyle**

In Germany the family is typically small with an authority father figure, a mother, and generally one to two children. It is common for both of the parents to work and for the children to move away when they become wage earners. With homes being very expensive, most families live in apartments. This is also the reason that many families in the inner city will rent a garden plot which also serves as a relaxing form of German recreation.

Along with gardening, “Germans enjoy hiking, skiing, swimming, cycling, touring in cars, and playing tennis” (“Federal Republic of Germany” 117-120). There is also adoration for soccer, not only playing it, but watching it on the television and forming soccer clubs.

## **Society**

Germany is ruled under a democratic system of government in which the president is elected by federal and state legislatures. The duties of the president are mostly ceremonial, while the chancellor has real control over the government. The legislative part of government is made up of two houses and each of the sixteen states has their own legislatures.

This type of government has made Germany one of the top five economic powers in the world. It also allows Germany to play a large leadership and funding role in the European Union. Good government funding through the country is also evident by looking at the quality of transportation, roads, communications, and education.

“Education is a source of pride, especially in the areas of technology and craftsmanship” (“Federal Republic of Germany” 117-120). Children must attend school starting at age six until they are fifteen, and after that they go on their chosen path to a specific career. Some students go right into a job-training program, while others will go to a university, but almost every occupation has a program or school designed especially for it. Education in Germany is also free at every level but it is very hard to get into a university because of the difficult entrance test.

Germany is a country of great pride and education; let’s take a look at the United Kingdom, less than 400 kilometers (250 miles) away.

## **Culture in the United Kingdom**

### **History**

The United Kingdom has gone through many power struggles which accounts for its many divisions. This land was first invaded by Romans, who remained in control until Rome was in a decline and the Angles and Saxons raided the country, driving the Romans out. These two Germanic tribes brought organized government and many basic standards of living to the country. This was all changed when Danish Vikings entered the country and started to take over and William of Normandy gained control. His control was one of brutal monarchy until the signing of the Magna Charta that limited monarchy and established human rights.

At this point the country only consisted of England until the global conquests begun under the rule of Queen Elizabeth I, daughter of Henry VIII. In this period of time, Wales, Scotland, and Ireland joined England to create the United Kingdom of Great Britain and Ireland.

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Britain's great naval and army powers allowed it to have colonies across the globe, but that came to an end after the American Revolution and World War I, when the American colonies gained independence and Great Britain granted most of its colonies independence. Ireland also gained its independence from Great Britain, so the United Kingdom (U.K.) came to be comprised of England, Scotland, Wales and Northern Ireland.

### **Population and Language**

The U.K. "has an overall population of more than 59 million" ("England (United Kingdom)" 97-100) and it is always growing. About 90 percent of the population lives in cities, so the U.K. is considered highly urbanized. And even though most of the population is Caucasian, because of Britain's extensive colonial heritage, there are populations of Indians, Africans, and Asians. Most of the language throughout the U.K. is English, but "the United Kingdom has no official language" ("Culture of the United Kingdom"). Different dialects appear in different regions, and the old Oxford English is almost obsolete. This common race and language keeps the U.K. very unified.

### **Religion and Attitudes**

When Henry VIII was ruler of England he split from the Roman Catholic Church and formed the Church of England (Anglican Church). Today this Anglican religion remains the dominant religion for nearly half of the population. There are also large congregations of Catholics, Presbyterians, Methodists, and Jews, along with considerable groups of Hindu's, Sikh's and Muslims. While most of the population is religious, they "consider religion a private matter and feel it is impolite to ask about one's religious beliefs" ("England (United Kingdom)" 97-100).

This type of action is due to the U.K. reserved attitude. People in the U.K. like to follow tradition and custom because of their long and prosperous history. Emotions are not taken to the extreme, individuals actually feel embarrassed if they get very upset or excited. This also causes them to have a sarcastic sense of humor and be rather over critical of themselves.

### **Lifestyle**

"English families are small and tight-knit" ("England (United Kingdom)" 97-100). Traditionally the family would have two children, but the U.K. culture is moving away from that. Now less people are getting married and if they do get married then it isn't until later in life so it is common for them to have one child or no children at all. It is common for a family to have a house and a garden rather than living in an apartment. The U.K. actually seems to be moving away from urbanization, maybe because of the love of nature and gardening.

Gardening is a favorite pass time of many people in the U.K. along with golfing, and fishing. There is also a love for watching television, especially football (soccer) and horse racing. The time they spend watching television is second only to individuals in the United States.

### **Society**

The U.K. is still under a monarchy, but the elected officials of Parliament do all the governing. There is no constitution, only acts put in place by Parliament. The party's leader with the most members in Parliament becomes the prime minister, and him, along with the cabinet, make up the executive branch. The legislative branch comes from the House of Commons. The main legislative job is to veto any unfair or unjust legislation.

This type of government gives the U.K. "one of the largest economies in Europe" ("England (United Kingdom)" 97-100). One disadvantage to the U.K.'s economy is that it relies mainly on the service industry so it is vulnerable and has many ups and downs. They are still good at funding public transportation such as the Tube, along with buses and trains. Also, much of the

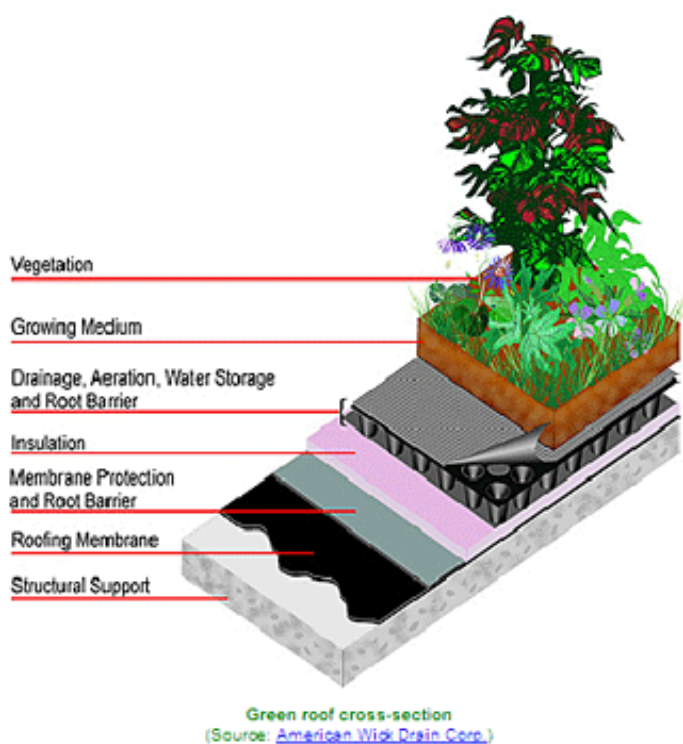
taxes go towards funding public schools. For children between five and sixteen, public schooling is free, but any education after that which is secondary level and college level are not compensated for by the government. The education level of the U.K. is recognized in areas of technology and science.

The cultures of these two countries play an important role in their level of green roof implementation. There are many concerns about green roofs but the benefits are very evident and are growing all the time.

## Green Roof Technology

### What is a Green Roof?

Also known as an eco-roof or living roof, a green roof is a layer of vegetation grown on top of a slightly modified conventional roof that is anywhere from flat topped to 45 degrees. Modern green roofs can usually be supported by a pre-existing roof structure but sometimes more support is needed. Concrete, flat-top roofs are the best for growing, but almost any will work.



There are usually six layers to a green roof. The structural support of the roof is first layered with a roofing membrane to protect the structural support. A root-barrier layer is put down to protect the roofing membrane and stop any extraneous roots from getting to there. On top of that, a layer of insulation is sometimes put down for extra insurance on keeping the temperature in the building constant. Then a layer is put down for water storage, water drainage, aeration, and to stop almost all of the roots from getting to the lower layers. Finally a growing medium is put in place and, depending on the type of roof, certain vegetation is grown. There are basically three types of green roofs: extensive, semi-intensive, and intensive. The different types vary in

the amount of growth medium put down and the kind of vegetation grown, the type is chosen based on expenses and amount the roof can support.

Extensive green roofs (“a” in Figure 1) usually have 3-6 inches of growing medium and can support low growing plants and drought tolerant plants. These types of roofs are low maintenance, and “due to the low maintenance, they are the roof of choice for building owners looking to reduce costs and improve the environment” (Green Roof Service, LLC.).

Semi-Intensive green roofs (“b” in Figure 1) have at least six inches of growing medium that has the ability to grow “shrubs, perennials, herbs and grasses” (Green Roof Service, LLC.). They take periodic maintenance and watering and are just as the name says, semi-intense.

Intensive green roofs (“c” in Figure 1) contain at least one foot of growing medium, and are deep enough to support trees. These types of green roofs take the most work because they must be maintained and have regular irrigation to survive. Intensive green roofs have the largest level of

maintenance because they are like “a roof top garden or a patio” (Green Roof Service, LLC). (See Table 1 for a summary of roof types)

**Table 1** ("Types of Green Roofs")

	<b>Extensive Green Roof</b>	<b>Semi-Intensive Green Roof</b>	<b>Intensive Green Roof</b>
<b>Maintenance</b>	Low	Periodically	High
<b>Irrigation</b>	No	Periodically	Regularly
<b>Plant communities</b>	Moss-Sedum-Herbs and Grasses	Grass-Herbs and Shrubs	Lawn or Perennials, Shrubs and Trees
<b>System build-up height</b>	60 – 200 mm	120 - 250 mm	150 - 400 mm on underground garages > 1000 mm
<b>Weight</b>	60 - 150 kg/m <sup>2</sup> 13 -30 lb/sqft	120 - 200 kg/m <sup>2</sup> 25 - 40 lb/sqft	180 - 500 kg/m <sup>2</sup> 35 - 100 lb/sqft
<b>Costs</b>	Low	Middle	High
<b>Use</b>	"Ecological protection layer"	"Designed Green Roof"	"Park like garden"

## Benefits

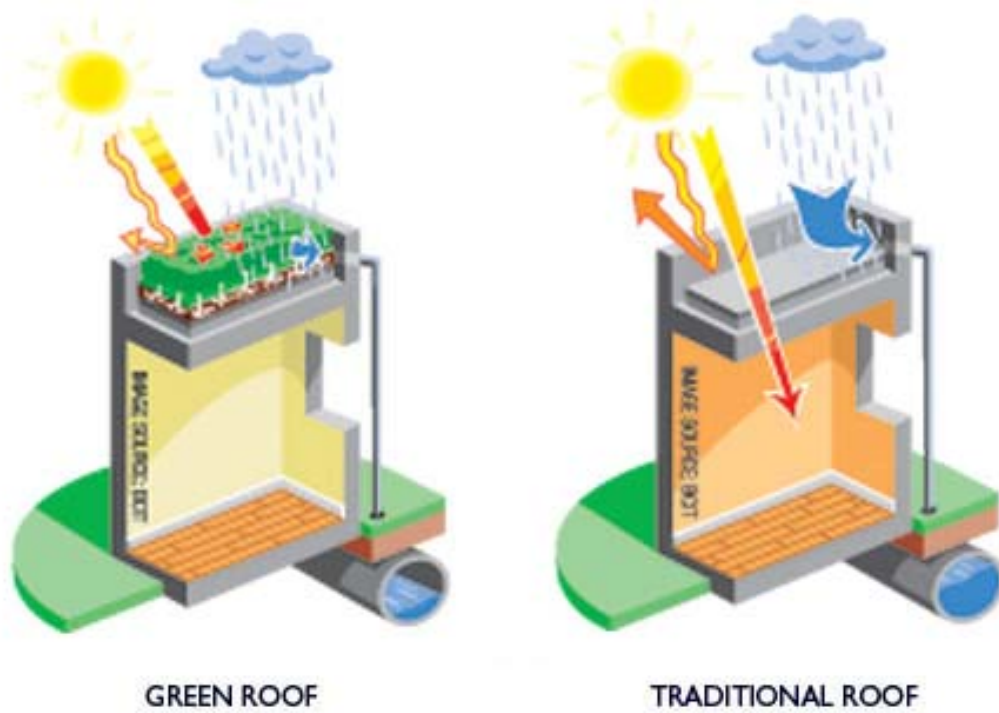
There are numerous benefits to having a green roof for the whole surrounding community. First of all, green roofs improve the air quality because “foliage is capable of absorbing gaseous pollutants, a point that is demonstrated by the positive effect that indoor grown plants have upon the air quality in homes and offices. By absorbing and sequestering gaseous pollutants, plants act as biofilters” (“Live Roof”).

Green roofs also help in reducing the heat island effect. The heat island effect is the occurrence of increased heat in cities because of lack of air flow as opposed to the temperature in the surrounding rural areas. “The urban heat island effect is thought by some researchers to increase convection in surrounding regions and to contribute to violent weather events such as thunderstorms that tend to surround cities (even while cities are less able to absorb such rainfall). Convection currents also raise dust and pollution and perpetuate air quality problems” (“Live Roof”).

The aesthetics are another huge improvement green roofs make. Aesthetics is a love for beauty and nature. Green roofs look a lot better than a flat cement top, or black shingles and tar. They give a kind of peaceful and happy feeling to an onlooker. Green roofs bring in natural elements and attract wildlife. They are actually thought to spark a more creative and altruistic nature in people.

These are some of the major benefits of green roofs but there are many more. For building owners, green roofs expand roof life by two to three times, reduce summer air conditioning cost, reduce winter heat demand, are a storm water management tool, a way to possibly get incentives, improve public relations, and use dead space as a garden. And for the community green roofs reduce stormwater runoff, smog, noise, and energy demands. Finally, for the environment sewer





overflow is prevented, carbon dioxide is reduced, nitrogen pollution in rain is reduced, acid rain is neutralized, and a habitat for birds and insects is provided.

Now that all the aspects of German culture and culture in the U.K. are covered, and everything about green roofs has been presented, let's try to answer the big question of why Germany is leading in green roof technology, much more so than the United Kingdom.

### **Conclusion: Why Germany?**

#### **Cultural Differences**

Many aspects of German Culture and culture in the United Kingdom are similar, but there are a few key differences. Some of these differences may not make much of a difference, but some

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make all the difference. “Industry figures suggest that 10% of German roofs are greened” (“About Green Roofs”), why? How did Germany get so far ahead of the United Kingdom in greening their roofs?

### **Government**

The government system of Germany and the U.K. are totally different. While Germany has a democracy, the U.K. still has a form of monarchy. It is usually true that in democracies there is a higher level of innovation and independent thinking. I think this plays a large part in Germany’s dominance in green roofing. Not only the type of government, but the government regulations play a large part. The Global Competitiveness Report 2001-2002 shows that the stringency of environmental regulations, air pollution regulations, and water pollution regulations in Germany are significantly higher than those in the United Kingdom, which is huge. The figures show that the government’s role in taking care of the environment is essential.

### **Lifestyle and Attitudes**

The lifestyle and general attitude of the individuals in these countries also plays a large role. In the United Kingdom, families live in houses and are moving away from urbanization, while Germany is still urbanizing and many families live in apartments. The German lifestyle creates a larger push to get things environmentally friendly while still urbanizing and progressing technologically, which is also very important. And when it comes to the general attitude, people in the United Kingdom tend to have self doubt and not to be too extreme, while individuals in Germany have a great amount of pride for themselves and their country and they have a great appreciation for intelligence and skill. These aspects of the countries too make great points on the effects of culture on green roofs.

### **Education**

Last but not least is the question of educational differences in the two countries. In Germany intelligence is well rewarded with payment for all schooling, even college, which isn’t so in the United Kingdom. This reward for working hard is seems to have a high impact on the overall intelligence level of all Germans. There is also quite a bit of difference in the public schooling system. According to The Global Competitiveness Report 2001-2002, Germany has some of the highest quality public schools in the world, where the United Kingdom ranks somewhere in the middle. It also says that there is a large gap between the quality of schooling for rich children and poor children in the United Kingdom, but that gap is almost non-existent in Germany. Education definitely plays a vital role in the implementation of green roofing.

After reviewing all the aspects of culture in Germany and the U.K. and everything it takes to create a green roof. It is evident that government, lifestyle, general attitude, and education all play a huge part in effecting the level a country implements green roofs. Green roofs do not take much to install these days, and make great improvements to the environment. Hopefully in the future there will be a significant amount of green roofs everywhere, so everyone, even city dwellers can have the joy of relaxing in a natural setting.

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# **VENTURE CAPITALISTS' INVESTMENT CRITERIA: 40 YEARS OF RESEARCH**

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## **ABSTRACT**

In this paper, we review the literature on venture capitalists' (VCs') investment criteria from its early beginnings (Wells, 1972; Poindexter, 1975) to current studies (Silva, 2004; Khanin, 2006). We identify the most important decision criteria of investment in new ventures discussed in the literature, such as top management team, market, product, risk, deal and competition. In addition, we focus on the ongoing debate that can be traced in the literature as to whether management characteristics or product/market attributes play the most prominent role in impacting VCs' decision to invest. We show that while VCs themselves typically believe that management capabilities matter more than any other factor, in-depth studies of VC decision making show that other characteristics, such as market growth rate and entrenched competition, may play a more important role. Furthermore, VCs often couple the criterion of management capabilities with that of the level of protection from competition.

## **EXECUTIVE SUMMARY**

In this paper, we summarize the evolution of the VC investment literature from the earliest dissertations on the subject written in the 1970s (Hoffmann, 1972; Wells, 1974; Poindexter, 1977; Hoban, 1976; Benoit, 1975; Dorsey, 1977) to the most recent publications (Shepherd and Zacharakis, 2002; Silva, 2004). Throughout this review, we are asking two main questions: (1) what are the main groups of investment criteria utilized by VCs to make the decision whether or not to finance a new venture? (2) Which of these criteria plays the most prominent role? We conclude that the VC investment literature is split between those who argue that in contemplating their investment decision VCs mostly rely on the criterion of management capability and those who propose that market size, growth rate and product quality play a more important role than management capability. Furthermore, the criterion of management capability often is not used on its own but rather is tightly linked with some other important parameter, typically, with competition.

## **INTRODUCTION**

Extant research has identified a number of key investment criteria used by VCs for evaluating entrepreneurs' business proposals, and has established their relative importance. Specifically,

these studies have shown that the size and attractiveness of the market (Tyejee & Bruno, 1984); management capabilities and functional skills (Wells, 1974); the uniqueness of a product or service (Fried & Hisrich, 1994); market acceptance of a product and the degree of competitive threat in the marketplace (MacMillan et al., 1985; 1987; Muzyka et al., 1996) are among the topmost investment criteria in a VC's repertory.

In this paper, we summarize the main findings of the VC investment literature and analyze their practical implications for VCs. We also make suggestions as to ways of improving the quality of literature dedicated to VCs' investment criteria in ways that would make it more relevant to investors – from VCs to business angels (wealthy individuals providing seed money) and corporate units specializing in financing of new ventures.

## **THE MAIN INVESTMENT CRITERIA IDENTIFIED IN THE REVIEWED STUDIES**

### **Top Management Team (TMT)**

Many studies singled out a plethora of management-related investment criteria that VCs use to decide whether to provide a venture with initial funding. Thus, most studies have shown that VCs evaluate whether senior management is competent. Some scholars (Wells, 1974) differentiated among management functional skills: general, marketing, financial and manufacturing. Others focused on management expertise and capabilities (Fried & Hisrich, 1994). Scholars have argued that VCs often choose not just competent but also seasoned managers (Robinson, 1987; Knight, 1994) on the basis of their track record, experience and references from prior places of employment. In addition, researchers have demonstrated that VCs consider top management's psychological characteristics and cognitive capabilities, such as perseverance, commitment, attention to detail, and high risk tolerance (Wells, 1974; Kumar, 2003). Separately, many studies have discovered that VCs are concerned about the ability of senior management to act as leaders and be recognized as leaders by their team members (Robinson, 1987; Kaplan & Stromberg, 2000). According to some studies, VCs typically assess the quality of a management team, for instance, VCs prefer when a management team is balanced, i.e. it is composed of people with complementary functional backgrounds, competencies and skills (Muzyka et al., 1996; Bachher, 2000).

### **Market and Market Growth**

Extant studies have revealed that VCs are primarily concerned about whether there is sufficient access to the market targeted by a venture (Tyejee & Bruno, 1984); whether a venture satisfies an existing market need or stimulates a new need in an existing market (MacMillan et al., 1985; 1987); whether a market is sufficiently large so that a venture has a chance to achieve profitability and/or whether the market is growing fast enough (Muzyka et al., 1996). In addition, Shepherd (1999) and Shepherd et al. (2000) have derived several concepts regarding market conditions from the economics literature, and demonstrated that VCs may utilize such criteria as "key success factor stability" (VCs examine if requirements necessary for achieving success in the market change slowly or rapidly).

### **Product**

Many studies have established that VCs carefully evaluate the quality of a venture's product using the following criteria: is the product unique or sufficiently differentiated compared to competitors' offerings (Muzyka et al., 1996)? Is the product proprietary (MacMillan et al., 1985;

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1987; Zacharakis & Meyer, 1998)? Does a functioning prototype of a product exist (MacMillan et al., 1985; 1987)? Will a product allow a venture to obtain a competitive advantage due to its apparent superiority over the competitors' products or services (Fried and Hisrich, 1994; Zacharakis and Meyer, 1998)?

### **Risk**

Scholars have established that in evaluating prospective investments VCs identify various types of risk they may need to tackle with regard to a particular venture. Thus, MacMillan et al. (1985) have identified five types of risk typically examined by VCs: 1/ competitive risk; 2/ bail out risk; 3/ investment risk; 4/ management risk; 5/ implementation risk. MacMillan et al. (1987) outlined five somewhat different types of risk: 1/ management risk; 2/ competitive exposure; 3/ inexperience risk; 4/ viability risk; 5/ cash-out risk.

### **Returns**

Numerous studies have demonstrated that VCs are extremely concerned about whether the projected returns from investment in a venture will be sufficient to justify a venture's funding (Poindexter, 1975). At the same time, some scholars have pointed out that VCs do not quite trust entrepreneurs' "overoptimistic" projections regarding future returns, and pay more attention to the market's estimated growth rate and whether a product satisfies an existing or emerging market need (MacMillan et al., 1985; 1987; Zacharakis, 1995).

### **Exit**

A number of studies have shown that VCs investigate some conceivable exit choices before they invest (Tyebjee & Bruno, 1984). Since VC funds have a limited life span (typically, up to ten years), VCs are concerned whether or not they will be able to timely liquidate their investment (MacMillan et al., 1985). Thus, VCs may or may not fund a venture depending on their estimates of the likelihood and timing of anticipated exit alternatives (Kaplan & Stromberg, 2000).

### **Deal**

Another important consideration for VCs is the quality of the deal. Thus, according to several studies, VCs may be keen on a venture, but will invest in it only if they are guaranteed a certain equity stake at an attractive price (Poindexter, 1975; Muzyka et al., 1996).

### **Strategy**

MacMillan et al. (1985; 1987) have first shown that VCs separately analyze a venture's strategy (for instance, its positioning vis-à-vis competitors) as one of their investment criteria. Other researchers have similarly observed VCs using venture strategy as a criterion (Muzyka et al., 1996).

### **Customer**

Most extant studies of VCs' investment criteria did not include customer's approval as a separate investment criterion. Instead, scholars have stressed the role of market acceptance of product (MacMillan et al., 1985; 1987). Some more recent studies, however, have emphasized that VCs separately analyze the customer's perspective (Silva, 2004), that is, whether customers in a particular sector will be likely to endorse a product and whether senior management has developed a true understanding of their prospective customers.

## Competition

Several studies have established that VCs carefully assess the extent of competitive threat in an industry sector before they decide to invest. Thus, MacMillan et al. (1987) discovered that two underlying factors have been consistent predictors of VCs' financing decisions: a) market acceptance of a new product; and b) the degree of competitive threat. Hisrich and Jankowicz (1990) pointed out that VCs consider the odds that a venture will be able to hold off competition and whether competitors would be likely to immediately target a venture as soon as it enters a market sector. In addition, Zacharakis (1995) showed that VCs take into account the number and relative strength of competitors in a target market. Shepherd et al. (2000) demonstrated that management competence and the degree of competitive rivalry are two most important criteria in VCs' evaluations of new ventures. Similar results have been shown to hold true in more recent studies (Khanin, 2006).

## CONCLUSIONS

There has been a considerable debate in the literature with regard to what type of factors – management capabilities, market/product characteristics or the level of protection from competition – provides the most prominent decision making criterion for VCs. Practically every scholar came out on either one or the other side of the debate. Intriguingly, some authors have expressed disparate opinions on the issue in different studies. Thus, MacMillan et al. (1985) asserted that the entrepreneur's ("jockey's") characteristics impact more VCs' investment decision than the quality of the product ("horse") whereas MacMillan et al. (1987) claimed exactly the opposite.

Several studies contended that they have improved prior understanding of the VC investment process by showing that VCs, in fact, are more concerned about the product/market characteristics than managerial skills (Zacharakis and Meyer, 1998) or that managerial skills are less important than the market potential or the assessment of environmental threats (Tyebjee and Bruno, 1984). The conclusion that the quality of the entrepreneur may be less important to VCs in making their investment decisions than VCs themselves may think is a major discovery of the VC investment process and decision criteria literature. Nevertheless, some authors describe managerial characteristics as the decisive factor (Muzyka et al. 1996, Knight, 1993), and the time-honored debate continues.

We propose that the arguments as to whether managerial skills and competencies or product market characteristics and/or the level of protection are more important for VCs in their decision making should not be dismissed as idle or fruitless. The fact alone that each new spiral of research has examined this subject from a somewhat different angle testifies to its significance. Dorio's dictum (Sandberg, 1986; Sahlman, 1990) that VCs prefer to finance a more qualified ("A") person with a worse ("B") project than a less qualified ("B") person with a better ("A") project has entered the industry's lore and acquired the status of conventional wisdom. This may

explain why VCs typically exaggerate the importance they attach to managerial qualities in their responses to surveys. In-depth studies, however, show that management capability is typically coupled with some other important criteria, such as market size and growth rate as well as competition (Zacharakis, 1995; Shepherd et al., 1999).

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# **ENTREPRENEURSHIP AND PRISONER RE-ENTRY: THE DEVELOPMENT OF A CONCEPT**

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## **Abstract**

In 1992, this author proposed that small business and entrepreneurial training programs for soon-to-be-released inmates and for recently-released ex-convicts might increase their opportunities for self-employment and therefore reduce their rate of recidivism (Sonfield, 1992). Although this was not an original idea, at that time this idea was largely conceptual. This paper reviews the development of this concept since 1992 and then presents the current situation. Political values and public opinion have changed over the past fifteen years, and the costs of the American prison system and of ex-convict recidivism to the taxpayer are now better recognized.

While they are still few in number and small in impact, a number of “re-entry programs” have been established in recent years throughout the United States. These programs provide instruction, workshops and mentoring, with the objective of preparing inmates and ex-convicts for both employment and self-employment. With a focus on self-employment, this paper looks at the changes over the past fifteen years, reviews some empirical analysis of prison inmates’ entrepreneurial aptitude, and considers the future direction of these re-entry programs.

## **Introduction**

The population of American prisons and jails passed the two million mark in 2002, and has continued to grow at a rate of 2% to 3% each year since then (usgovinfo, 2007). For certain demographic groups, the incarceration rates are especially high. For example, in the 25-29 age group, approximately 11.9% of black men are in prisons or jails, as are 3.9% of Hispanic men and 1.7% of white men (USA Today, 2006). U.S. taxpayers spend \$60-70 billion per year on corrections. More than 650,000 prisoners are released each year, and about two-thirds return to jail or prison within two to three years (Prisoner Reentry Institute, 2006; U.S. Dept. of Justice, 2007). Since not all those who commit crimes are apprehended and convicted, the actual rate of recidivism is even higher (Grossman, 1985).

A primary cause of this high rate of recidivism is the great difficulty former inmates have in obtaining employment. Without employment, ex-convicts are three to five times more likely to commit a crime than are those who gain employment after leaving prison (Jackson, 1990). Yet ex-convicts find it difficult to obtain employment. Most employers are wary of hiring such individuals, and federal and state laws often bar ex-convicts from certain fields of employment. The resulting costs of recidivism to society are enormous: public safety risks, a weakening of family and community ties, public health risks, and rapidly rising criminal justice costs (Prisoner Reentry Institute, 2006).

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Fifteen years ago this writer, in response to this long-standing issue, suggested that small business and entrepreneurial training programs for soon-to-be-released inmates and for recently-released ex-convicts might increase their opportunities for self-employment and therefore reduce their rate of recidivism (Sonfield, 1992). At that time, this idea was largely conceptual. While a scattering of prisons around the country allowed local social services agencies or colleges to conduct job training or business courses within their walls, the focus of these few programs was generally to prepare inmates for *employment by others* rather than *self-employment*.

### **The Entrepreneurial Aptitude of Prison Inmates – Empirical Testing**

Following up on the initial 1992 proposal, this writer and two co-authors took this idea to next step by conducting empirical testing of the *entrepreneurial propensity* of prison inmates using the Miner Sentence Completion Scale-Form T (MSCS-T). This test is a projective testing instrument which has been shown to validly measure motivational factors associated with entrepreneurial success. Furthermore, the validity of this instrument had been established among various criteria of entrepreneurial firm growth (Bellu, 1988, 1992; Bellu, Davidson & Goldfarb, 1990; Miner, 1997; Smith, Bracker & Miner, 1987; Smith & Miner, 1985). This testing of inmates was conducted in response to stories which some business school instructors brought with them out of prisons in which they were teaching: their perceptions that many of their inmate-students (with no prior *legitimate* business or employment experience) seemed quite “business-savvy,” with a surprising understanding of the nuances of marketing, finance etc.

Although gaining entry to prisons for testing purposes proved to be very difficult, in the mid-1990’s the MSCS-T was administered to 59 male prison inmates in three different states. The testing results indicated that the prison inmates scored higher on the MSCS-T than did comparable groups of “normative entrepreneurs,” “slow-growth entrepreneurs,” and “manager-scientists,” thus indicating that some prison inmates possess high levels of entrepreneurial aptitude (Sonfield & Barbato, 1994; Sonfield, Lussier & Barbato, 2001). See Table 1.

These results may not be that surprising. About 35% of all of all prison inmates have been convicted of drug trafficking crimes (Drug Data Summary, 2003). It is not unusual for a local drug dealing operation to have \$100,000 in sales per week, a 90% net margin, and 90% repeat business (Prison Entrepreneurship Program, 2007). Drug dealers, and their employees, often display the same entrepreneurial and managerial skills as successful owners and employees of legitimate business operations. If entrepreneurial “propensity” or “aptitude” is an attribute that some people possess to a greater degree than do others, and if a portion of our nation’s prison inmates possess this attribute, then *entrepreneurial* or *self-employment* training for soon-to-be-released inmates and recently-released ex-convicts would be a potentially valuable component of our nation’s social policy efforts, and might result in a lowering of recidivism rates with resultant benefits for society.

### **Program Proposals and Early Efforts**

If entrepreneurial training programs were to be developed and instituted for inmates and ex-convicts, the design of such programs would be critical to their success, As part of this

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writer's original proposal, a variety of issues were discussed: inmate screening and pre-testing, criteria for inmate admission into the program, timing relative to release or parole, financing assistance, etc. With so many factors working against the post-prison entrepreneurial success of inmates, any programs instituted would have to be very carefully designed (Sonfield, 1992).

Working against the development and implementation of such programs in the early 1990's was the political environment. Conservative political, social and economic values had grown significantly in the 1980's. The American voter generally saw prisons as mechanisms to keep criminals off the streets; a place for confinement and punishment. The costs of such confinement were necessary, but the idea of spending additional tax monies on any form of training programs was politically unpopular.

Yet both the federal and state governments were willing to design, pay for, and establish self-employment training programs for laid-off workers, and some of these programs had proven successful. As the 1990's progressed into the 2000's, many private agencies began to see comparable programs for prison inmates and ex-convicts as worthy of their efforts. Many of these agencies had already developed similar programs for inner-city, unemployed, minority, and other low-income groups. Thus, in the 1990's a handful of such programs were established around the United States.

### **Inmate-Targeting Programs Fifteen Years Later**

In 2007, the situation has changed. Even the most conservative politicians, from President George W. Bush on down, now seem to recognize that the increasing costs of building and maintaining prisons have gotten out of control and can lead to rising taxes. And these conservative law-makers also now appear to understand that ex-convict recidivism is a serious problem that can result in higher taxes as well.

Ten years ago, "rehabilitation" of inmates and ex-convicts was scoffed at by conservatives as being "knee-jerk liberalism" and ineffective. Today the preferred word is "re-entry." Republican Senator Sam Brownback of Kansas has concluded that "We've got a broken corrections system...recidivism rates are too high and create too much of a financial burden on states without protecting public safety." He now supports programs to facilitate prisoners' successful re-entry into society. President Bush has proposed a \$300 million initiative for "re-entry" programs, to be conducted by region-based groups (Butterfield, 2004). These politicians have thus joined in their thinking with the many experts and organizations focusing on criminal justice and the issues of recidivism that now see entrepreneurship and self-employment as a viable alternative to post-prison employment and as a means to reduce recidivism.

In the current decade, a small number of organizations have found the financial and practical resources to establish self-employment and entrepreneurial training programs for prison inmates and ex-convicts. The number of such programs is still small (perhaps 20 to 30 at most), and only a tiny portion of the potential target population can be served, but the trend is a positive one.

A sampling of programs that currently exist will give the reader an idea of the scope and nature of these programs:

- *The Five O’Clock Club*. Founded 1978. Skills training for employment and self-employment for incarcerated women at a New York City women’s correctional facility.
- *Trickle Up*. Founded 1979. Provides conditional seed capital and business training for underserved people, including poor and formerly incarcerated people in New York City.
- *Women Entrepreneurs of Baltimore*. Founded 1989. Business training programs and a loan fund for low-income and underserved women in Baltimore, MD.
- *New Vision, New Ventures*. Founded 1999. Micro-entrepreneurial training for economically and socially disadvantaged women in Richmond, VA, many currently in correctional institutions.
- *Men’s Employment and Business Ownership Program*. Founded 2004. Entrepreneurship training for low-income African-American fathers in Chicago, IL, 60% having felony records.
- *Prison Entrepreneurship Program*. Founded 2004. Business plan and work readiness programs for incarcerated men in Texas.
- *Rising Tide Capital*. Founded 2004. Basic business planning and management training for low-income individuals, primarily women, minorities, and formerly incarcerated persons in Jersey City, NJ.
- *Self-Education and Economic Development* program at Clinton NY Correctional Facility. Founded 2005. Start-up and general business skill classes for incarcerated men.
- *Central Ohio Regional Ex-Offender and Family Reentry Program*. Founded 2006. Micro-enterprise classes for females transitioning from Ohio correctional facilities.
- *Coffee Creek Prison Project*. Founded 2006. Business planning and related training for women inmates in Portland, OR.

It can be seen that most of these programs have been recently founded, and that many are targeted specifically for women rather than for men, even though men constitute about 93% of all prison inmates (U.S. Dept. of Justice, 2007). The reasons for this disproportionate focus of programs on women are complex, but include the perceptions of the needs of women ex-convicts and the likelihood of success for women. Certainly the preponderance of male prison inmates would warrant a greater proportion of programs targeted to men.

To further understand the nature of these re-entry training programs, one can look at the specific example of the Prison Entrepreneurship Program (PEP) of Texas. The program’s mission statement reads:

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

PEP’s program components include:

- In-prison business plan competition
- Work readiness program

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- Executive mentoring program
  - Entrepreneurship school
  - Access to financing (PEP Opportunity Fund)

In its third year of operations, PEP has worked with more than 165 inmates in two prisons, and has recruited more than 150 top-level executives to work with inmates in prisons as instructors, workshop leaders and mentors. Three-year cumulative data (Prison Entrepreneurship Program, 2007) show:

- Of 212 inmates who participated in PEP program and then were released from prison, 196 were subsequently gainfully employed and only 2 returned to prison
- Of 41 inmates who graduated from PEP's Entrepreneurship School and then were released from prison, 19 successfully established their own businesses
- A cost per participant of \$3700 versus the average tax burden of \$22,000 per inmate for each year of incarceration

As PEP moves into its fourth year of operations, its annual budget is \$925,000, and its plans for the next few years include adding more programs in additional locations in Texas. Other groups on the above listing conduct similar programs and offer similar services.

### **Future Directions**

With both politicians on both sides of the isle now supporting re-entry programs with the objectives of ex-convict employment and self-employment, the opportunities for the funding and effectiveness of such programs should improve. In the past most of these programs looked for funding from the private sector; government funding may now become more available. Also in the past, federal and state laws often barred or restricted ex-convicts from holding jobs or operating businesses in fields such as the financial, insurance, healthcare, childcare, transportation and aviation industries. Now the federal government and many states are softening these restrictions; therefore graduates of these programs will have more opportunities for employment and self-employment.

While the future of entrepreneurial training programs for prison inmates and recently-released ex-convicts is still unclear, it does appear to be a growing phenomenon. If the political climate and public opinion remain positively supportive of such programs and thus foster continued growth in private and public funding, and if the existing programs continue to demonstrate both cost-effectiveness and recidivism-reduction benefits, then we should see more programs of this nature, serving a greater number of inmates and ex-convicts, in the future. Fifteen years ago, such a future seemed very unlikely.

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Table 1  
Mean MSCS-Form T Scores

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

MANOVA Test Significance Level

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

One-Sample T-Tests Significance Levels

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

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

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

Sources: Prison Inmates: Sonfield & Barbato (1994)

Normative Data: Miner (1986)

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

Manager-Scientists: Smith & Miner (1985)

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# **FAMILY BUSINESSES AND THE RELATIONSHIP BETWEEN BUSINESS AGE AND MANAGEMENT ACTIVITIES, STYLES AND PRACTICES: A FOUR-COUNTRY ANALYSIS**

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## **Abstract**

This study investigated family businesses in four countries with regard to a firm's years in business and the firm's management characteristics. How do a family business' management activities, styles and practices change as the firm ages? Focusing on a variety of family firm management variables identified as important in the family business literature, statistical analyses indicated that company age does *not* seem to have a significant impact. This empirical and statistical analysis of family businesses does not support much of the earlier and largely conceptual literature, which focused on company *life cycles* and *stages* of management. Thus, this study indicates a need for considerable further research with regard to this issue.

## **Introduction**

The objective of this study was to investigate family businesses with regard to the degree to which the age of the business relates to the management of the business. How does the number of years in business relate to various managerial activities, styles and practices of that firm?

As discussed later in this paper, empirical research in the field of family business is at an early stage of development; thus prior studies specifically focusing on this issue have been minimal. This study expands this area of study.

This current study is therefore important in that it brings new empirical research, conducted in four different countries with different entrepreneurial characteristics, to this issue as a component of the overall study of family business management. Furthermore, the results of this research are not only of value to researchers, but should also be of value to consultants to family businesses and to family business owner/managers themselves, both of whom may gain insight into the impact of business age on family firms.

## **The Importance of Family Business**

In almost all countries, *families* are central to the ownership and management of the majority of businesses. (Dennis 2002). Within the U.S. economy, family businesses comprise an

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estimated 80% of the total 15 million businesses (Carsrud 1994; Kets de Vries 1993). They contribute more than 50% of the total Gross National Product (McCann, Leon-Guerrero and Haley 1997), 50% of employment (Morris, Williams, Allen and Avila 1997), and have higher total annual sales than non-family businesses (Chaganti and Schneer 1994). Furthermore, it is estimated that 35% of *Fortune 500* firms are family owned (Carsrud 1994) and one-third of S&P 500 companies have founding families involved in management (Weber and Lavelle 2003).

## **Review of the Literature**

### *Business Age*

A search of the literature finds no useful research precedence or support for relating a business' *age* to its management activities, styles and/or practices. Rather, the most related focus of prior research is on *business life cycles*.

### *Business Life Cycles in General*

There is a considerable body of literature which focuses on the concept that organizations move through a *life cycle* or series of *stages* over time. Similar to a biological life cycle, businesses and other organizations are born and eventually die, and in between move through a series of stages, each of which differs in characterization. Much of this literature goes back decades (Dodge, Fullerton & Robbins, 1994; Greiner, 1972; Hanks, Watson, Jensen & Chandler, 1993; Lohdal & Mitchell, 1980; Miller & Friesen, 1983; Tichy, 1980). While this concept of an organizational life cycle is well-established, the various models which have been developed vary considerably in terms of the number of stages and in their descriptions. Some models propose as few as three life cycle stages, while others suggest as many as ten stages. Yet while a firm *ages* in years, it does not necessarily move through *life cycles*. Still, given the lack of a useful research base regarding the *age* of a business, the literature on *life cycles* may be the primary surrogate for an age-focused literature base.

While much of this literature is conceptual and theoretical in nature, some of these researchers have tested the life cycle concept empirically (Hanks, 1990; Kazanjian, 1988; Lester, Parnell & Carraher, 2003; Miller & Friesen, 1984; Smith, Mitchell & Summer, 1985), and these empirical studies tend to support a four or five-stage model.

### *Small Business Life Cycles*

Still, only a few of these studies have focused specifically on *small* businesses and even fewer have focused on *family* businesses. Lester & Parnell (2005), in a study of 242 practicing managers of small companies, found that small businesses can be found in all the stages of a five-stage model, and that the life cycle model used in the study was appropriate for small as well as medium and large businesses.

### *Family Business Life Cycles*

Gersick and various co-authors have been among the few to study the concept of the business life cycle in the context of the *family business* (Gersick, Davis, Hampton & Lansberg,

1997; Gersick, Lansberg, Desjardins & Dunn, 1999). Their research has led to a proposed life cycle model of stages, each with different family firm characteristics and implications for the management of such firms. This model, derived primarily from consulting experience with family firms, identifies stages along a *business over time* axis and relates them to comparable stages along an *ownership over time* axis and a *family over time* axis, focusing on changes in various management issues, such as leadership, organizational structure, strategy, organizational behavior and financial management.

Also related to, but somewhat different than, the concept of a family firm *life cycle* is the focus by Sonfield and Lussier (2004, 2005) on *generations*. Their research, based on statistically-analyzed empirical data, compared first, second and third-generation family firms in light of various researchers' earlier investigations regarding generational issues. In contrast to these earlier findings, these studies found few generational differences in managerial characteristics and activities.

## Hypotheses

As discussed earlier, the objective of this study was to investigate family businesses with regard to the age of the firm. How does company age relate to the managerial activities, styles and practices of a firm? Because the research base upon which this study rests is minimal, and to build a base for a variety of future research studies, a broad analysis would be of value at this time. Therefore, the hypotheses used for this study are based on hypotheses used in previous studies by Sonfield and Lussier (2004), who investigated a wide variety of family firm management activities, styles and practices, which in turn derived from findings and propositions developed by earlier researchers who investigated similarities and differences between family firms. Some of these factors may prove to be related to family firm age, and other factors may not. The results of this study can thus provide direction for future research activity into business age.

Because of the limited prior empirical research in this area, the null hypothesis is used throughout. Refer to Sonfield and Lussier (2004), *Family Business Review*, for a full literature review supporting the 11 hypotheses below.

H1: The years in business of a family firm will not have a significant relationship to the percentage of non-family members within top management.

H2: The years in business of a family firm will not have a significant relationship to the percentage of women family members involved in the operations of the firm.

H3: *The years in business of a family firm will not have a significant relationship to the use of a "team-management" style of management.*

H4: *The years in business of a family firm will not have a significant relationship to the occurrence of conflict and disagreement among family members.*

H5: *The years in business of a family firm will not have a significant relationship to the formulation of specific succession plans.*

H6: *The years in business of a family firm will not have a significant relationship to the use of outside consultants, advisors and professional services.*

H7: *The years in business of a family firm will not have a significant relationship to time spent engaged in strategic management activities.*

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*H8: The years in business of a family firm will not have a significant relationship to the use of sophisticated methods of financial management.*

*H9: The years in business of a family firm will not have a significant relationship to founder influence on current management.*

*H10: The years in business of a family firm will not have a significant relationship to management's consideration of "going public."*

*H11: The years in business of a family firm will not have a significant relationship to the use of equity financing versus debt financing.*

### *Country Comparisons*

Data relating to Hypotheses 1-11 was gathered in the United States, Croatia, France and India. These four countries have different sized populations, different cultures, different economic characteristics and histories, and different *GEM* rates of entrepreneurial activity (Croatia = 3.6, France = 3.2, India = 17.9, United States = 10.5), thus providing a broad-based and diverse total sample of family firms.

The following information may be of value:

#### *Croatia*

In 1991, the Republic of Croatia declared its independence from Yugoslavia, and is today a parliamentary democracy with a population of about 4.4 million, about 57 percent of which is urban. Gross domestic product was estimated to be \$24.9 billion in 2000. Of a total 148,000 business enterprises in Croatia, about 90,000 are one-person operations and another 54,000 are small (annual sales of 2 million U.S. dollars or less) (World Almanac, 2003). Family-controlled businesses in Croatia have a long history in the country, prior to the institution of a socialist Yugoslavia following World War II. Today, most family firms are single-generation small businesses, oriented toward autonomy, self-employment and stability. Only since the 1991 independence have growth-oriented family-controlled businesses become a significant factor in the economy (Denona & Karaman-Aksentijevic, 1995; Galetic, 2002).

#### *France*

France has a population of about 60 million people. Seventy-five percent of the population lives in urban areas. In 2000, the gross domestic product was estimated at \$1.448 trillion (World Almanac, 2003). Family-owned and controlled businesses in France, called "patrimonial" businesses, play a major role in the economy: 98 percent of companies with less than 100 employees, 75 percent of those with 100 to 3000 employees, and 20 percent of those with over 3000 employees (Gattaz, 2002; Lyagoubi, 2002; Mahéroul, 1999).

#### *India*

Home to one of the oldest civilizations in the world, Britain relinquished control of the Indian subcontinent following World War II, and the Republic of India was established in 1950. India has a population of over one billion people and had an estimated gross domestic product of \$2.2 trillion in 2000 (World Almanac, 2003). The economy consists of a large state sector with a

number of very large state enterprises, a relatively small number of multinational companies, and a large private sector. The private sector, with few exceptions, is controlled by families who may or may not hold large shareholdings in their companies. Thus, most of the large Indian companies, though they may be publicly traded, are controlled by families and their management succession is generally maintained within the family. Members of their boards of directors also hold their positions at the pleasure of the controlling family (Center for Monitoring Indian Economy, 2003; Manicuttu, 2000).

### *United States*

In 2006, the population of the United States passed 300,000,000, with a GNP of approximately \$11.75 trillion (Central Intelligence Agency, 2006). Business ownership and management in the United States tends to run in families (Dennis, 2002). Within the U.S. economy, family businesses comprise an estimated 80% of the total 15 million businesses (Carsrud, 1994; Kets de Vries, 1993), contribute more than 50% of the total Gross National Product (McCann, Leon-Guerrero and Haley, 1997), and 50% of employment (Morris, Williams, Allen and Avila, 1997).

### **Methods**

The research design is a survey research correlational study.

### *Sample*

Sub-sample data was collected in each of the four countries using the same questionnaire. The mailed surveys were addressed to the presidents or CEOs of these companies, with the instruction that the addressee complete the survey, but only if they were an “owner-manager” and if they viewed their firm as a “family business.” The survey instrument included the question: “Do you consider your company to be a family business?” and the cover letter defined “family members” as parents, children, siblings, spouses, and other close relatives. All respondents included in the sample identified themselves as family firms.

The four country samples were combined to form one sample of 365 family businesses, with a combined response rate of 27.57%. The sample (N = 367) breakdown by country is as follows:

USA	n=159	43.56% of sample	27.1% response rate
France	n = 116	31.78%	14.5%
Croatia	n = 50	13.69%	71.4%
India	n = 40	<u>10.96</u>	<u>13.6%</u>
TOTAL	N = 365	100%	27.57% weighted average response rate

In the United States, the survey instruments were randomly mailed or hand-delivered to a variety of New York and Massachusetts companies, which had been identified as family firms. There were 585 surveys mailed or delivered, and 159 surveys were returned, providing a return rate of 27.1%. In France, surveys were mailed to 800 family businesses, identified through family business listings. There were 116 surveys

returned for a net response rate of 14.5%. In Croatia, the sample was developed by contacting the clients of Entrepreneurship Centers in four geographically diverse cities: Osijek, Pula, Split, and Varazdin. Seventy businesses were contacted by telephone, and a written survey was then sent to them. There were 50 surveys returned for a response rate of 71.4%. In India, from the Center for Monitoring the Indian Economy [CMIE], 295 companies representing a range of sizes and business sectors were selected for a survey mailing. There were 40 surveys returned, providing a response rate of 13.6%.

Identifying family firms from various listings is consistent with that of other family business research studies, which have been constrained by the lack of national databases of family firms (Chua, et al., 1999; Teal, Upton, & Seaman, 2003), and most empirical studies of family businesses have used a convenience sample (Chua, Chrisman & Sharma, 2003).

This is an acceptable sample size and response rate for family business research, as it has been reported that 62% of prior family business studies included no sample at all, or a sample with less than 100 family businesses, and 66% of these were convenience samples (Bird, Welsch, Astrachan & Pistrui, 2002). In the top three small business or 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% (Dennis, 2003).

### *Measures and Statistical Testing*

Descriptive statistics are included in Table 1 and hypothesis test results in Tables 2 and 3. To conserve space in Tables 2 and 3, all hypotheses are denoted by summary phrases. In the actual survey instrument, the questions or statements used to collect the data were more substantial.

The dependent variable for all 11 hypotheses tests is the age of the family firm as measure by *years in business*. Years in business was correlated using Pearson  $r$  with the 11 independent variables stated in each hypothesis and in Table 2. For regression analysis, again the dependent variable was years in business and the 11 independent variables for each hypothesis. With correlations, the results are the same regardless of which variable is dependent and independent, and with regression it has to be the dependent variable. See Table 3.

### **Results**

Table 2 reports the results of the correlational hypotheses tests. Of the 11 correlations, 7 were significant ( $p < .05$ ). However, although significant, the correlations are very weak. None of the 11 correlation coefficients were higher than .20. As a general guide, a correlation should be at least .40 to indicate a good relationship. Also, with regression the significant correlations drop down from seven to four. Results can be significant, but at the same time not be meaningful. Thus, it is concluded that the correlations are significant due to the large sample size ( $N = 365$ ), not to an actual relationships between variables.

Table 3 reports the results of the regression analysis. Overall, the 11 independent variables did predict the years in business ( $p = .000$ ). However, the adjusted  $R^2$  is only .114, indicating that around 88% of the variance in the years in business is explained by other variables not in the regression model. Thus, although significant, results are very weak and again it is concluded that the significance is due to the large sample size. Also supporting the conclusion that significance is due to large sample size is the drop in robustness of the results when the sample is broken down by country.

## Discussion

The findings of this study indicate that the age of a family business does *not* have a significant impact upon the variety of management activities, styles and practices of the managers of such firms. Although some very weak statistically significant correlations and regression were found, most of the various management characteristics investigated in this study did not change significantly as these family firms aged.

Thus, this empirical analysis of family businesses seems to *not* support earlier writings and studies involving possible *life cycles* in small businesses in general and family businesses specifically. These earlier studies postulated that many of the management activities, styles and practices of small and family businesses would change, or go through stages of a life cycle over time.

## Conclusions

Family Business as a field of study is still relatively young. Only in recent years have a significant portion of family business studies involved the use of quantitative testing rather than conceptual and qualitative analysis (Dyer & Sánchez, 1998). Thus, most of the conclusions and postulations presented in the recent and current body of literature are preliminary in nature, and there is a recognized need for replication and further research in the field to strengthen the body of literature and move toward the development of models and theories. This study adds one more step in that direction.

While qualitative analysis of family businesses may identify possible *life cycle*, *generational* and other variables that may be valid and which may be meaningful factors impacting such firms, considerably more research is needed before clear conclusions can be reached. Future research on this topic of business *age* should replicate and expand upon this and prior studies. This current study should be considered one building block in the construction of a strong body of family business literature.

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Table 1  
**Descriptive Statistics (N = 365)**

Variable	USA (n = 159)	France (n = 116)	Croatia (n = 50)	India (n = 40)	Total (N =365)
Generation ( n / %)					
1 <sup>st</sup>	50 / 31%	45 / 39%	11 / 22%	9 / 23%	115 / 32%
2 <sup>nd</sup>	60 / 38%	38 / 33%	35 / 70%	16 / 40%	149 / 40%
3 <sup>rd</sup>	49 / 31%	33 / 28%	4 / 8%	15 / 37%	101 / 28%
Years in business (mean/s.d.)	38.60 / 30.02	46.22 / 29.75	13.10 / 12.29	39.43 / 25.95	37.62 / 29.50
# of employees (mean/s.d.)	194.91 / 662.46	88.09 / 95.67	14.64 / 16.18	4,443 / 9,917	601.87/ 3543.44
Industry ( n / %)					
Product	42 / 26%	66 / 57%	26 / 52%	33 / 82%	167 / 46%
Service	117 / 74%	50 / 43%	24 / 48%	7 / 18%	198 / 54%
Ownership ( n / %)					
Corporation,	118 / 74%	90 / 77%	0 / 0%	40 / 100%	248/ 68%
Partnership,	17 / 11%	16 / 14%	6 / 12%	0 / 0%	39 / 11%
Sole proprietorship	24 / 15%	10 / 9%	44 / 88%	0 / 0%	78 / 21%

Table 2  
Correlations Hypotheses tests (N = 365)

<i>Variable</i>	<i>Mean/s.d. (frequency)</i>	<i>Co- efficient</i>	<i>P-Value</i>
Years in Business	37.62/29.50		
H1. % of non-family managers	35.82/33.55	.162	<b>.002</b>
H2. % of women involved in operation of business	30.41/27.02	-.132	<b>.012</b>
H3. Use of team-management decision style (7-1)	4.44/2.32	-.109	<b>.038</b>
H4. Occurrence of conflict and disagreements (7-1)	2.68/1.96	-.095	.071
H5. Formulation of specific succession plans (7-1)	3.43/2.44	-.081	.125
H6. Use outside advisor/professional services (7-1)	4.62/2.15	.132	<b>.011</b>
H7. Time spent in strategic planning (7-1)	3.23/1.77	-.107	<b>.041</b>
H8. Use sophisticated financial mgt methods (7-1)	3.93/2.08	.009	.869
H9: Influence of original founder (7-1)	4.32/2.16	-.195	<b>.000</b>
H10. Consider going public (7-1)	2.01/1.99	-.080	.129
H11. Use of debt vs. equity financing (n)	(245/117) (68%/32%)	-.152	<b>.004</b>

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

Table 3  
Regression Analysis

Model Summary ( $N = 365$ )

R	R Square	Adjusted R <sup>2</sup>	Std. Error of Estimate
.363	.132	.114	28.083

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	41540.57	11	3776.42	4.789	<b>.000</b>
Residual	272867.89	<u>346</u>	788.64		
Total	314408.47	357			

Coefficients

<i>Variables (H1-H11 independent)</i>	<i>Mean/ s.d.</i>	<i>Stand Beta</i>	<i>t</i>	<i>Sig</i>
# year in business—Dependent Variable	37.62/ 29.50			
(Constant)		62.07	8.00	.000
H1. % nonfamily managers	35.82/ 33.55	.126	2.19	<b>.030</b>
H2. % of women involved in business	30.41/ 27.02	-.131	-2.52	<b>.012</b>
H3. Use of team-mgt decision style (7-1)	4.44/ 2.32	-.045	- .82	.410
H4. Occurrence of conflict (7-1)	2.68/ 1.96	-.051	- .96	.337
H5. Formulation of succession plans (7-1)	3.43/ 2.44	-.011	- .20	.495
H6. Use outside advise (7-1)	4.62/ 2.15	.125	2.35	<b>.019</b>
H7. Time spent in strategic planning (7-1)	3.23/ 1.77	-.105	-1.91	.057
H8. Use sophisticated financial mgt (7-1)	3.93/ 2.08	-.023	- .39	.695
H9. Influence of original founder (7-1)-	4.32/ 2.16	-.155	-2.96	<b>.003</b>
H10. Consider going public (7-1)	2.01/ 1.99	-.077	-1.35	.179
H11. Debt vs. equity financing	(68%/ 32%)	-.091	-1.76	.079

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

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# FAMILY BUSINESS SUCCESSION PLANNING

**Don B. Bradley III, University of Central Arkansas**  
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## **Abstract**

*Business succession planning is one of the most important parts of management of a business today. Family businesses must have a way to hand over the business due to either death or planned retirement. This research tries to provide different alternatives to this process. With the grain of America, this will become more important in the next few years. I hope that this paper will provide the emphasis for small and family-owned businesses to begin their succession planning.*

## **Executive Summary**

Business succession planning is a critical part of estate planning and wealth management planning. The statistics make it clear that a huge number of baby boomers have created and grown many successful businesses. Many of them now are considering retirement and desperately need business succession planning. There are really two main options. One is business succession planning during the business owner's life and the other is at the business owner's death. While the demand for effective managers continues to grow, the retirement of baby boomers is producing a sharp decline in the ranks of available personnel. In addition, the executives of the future are expected to be more sophisticated to develop and lead new global and technological initiatives. For these reasons, careful planning for the eventual replacement of leaders at all levels of the organization has gained strategic importance (**Fulmer**).

Succession planning is not easy. This is why over forty percent of companies do not have a CEO succession plan in place. Best-practice organizations make succession planning an integral family business and corporate process by showing a link between succession planning and overall business strategy. This link gives succession planning the opportunity to affect the corporation's long-term goals and objectives. Articulating corporate vision to feed succession goals and contingencies is something that can get postponed when owners are working "in," rather than "on," their business. But becoming aware of what is needed and getting started early is a good thing to do, especially in uncertain times (**Fulmer**).

## **Introduction**

In organization development, business succession planning, or exit planning, is the process of identifying and preparing suitable employees, family members, or other business associates to take higher roles in an organization. Succession planning refers to the development of a comprehensive and coordinated plan designed to insure an orderly replacement of key members when their terms expire or when they are lost to the organization for any reason that might disrupt its operation. For example, it reminds many of the idea of royal succession. Who is next in line for the throne? However, it should be: who is prepared to take throne? History has showed that too often the Prince was not properly prepared to assume the responsibilities of King. The Prince may be next in line because of blood but, in most cases, did not have the

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training or mentoring to become the King. All business succession plans should not only name the replacements but provide them with the training and mentoring required for the position (**Waxler**).

Business succession planning is a very important process because you will need someone to take the place of the owner when he or she is distracted, disrupted, or when the owner takes a less active role in the business. For example, a chief executive officer of a company might:

1. Suddenly and unexpectedly be unable or unwilling to continue his or her role within the organization.
2. Accept an approach from another organization or external opportunity which will terminate or lessen the value of the current organization.
3. Indicate the conclusion of a contract or project
4. Move to another position which has a different set of responsibilities within the organization.

### **Considerations for Exiting Owners**

Succession is an evolutionary process, not an event that can occur quickly. The owner's plan should address both management succession and ownership succession. A succession plan begins with a vision for the future of the company (**Allen**). A company needs to ask itself what it wants to achieve in ten or fifteen years. A careful and considered plan of action ensures the least amount of disruptions to the exiting owner's responsibilities and therefore the organization's effectiveness. A succession plan clearly sets out the factors to be accounted and the process to be followed in relation to replacing a key component of the organization (**Wikipedia**).

### **Approaches to Succession Planning**

Succession planning is based on a simple premise. At some point, every owner leaves his or her business—voluntarily or otherwise. That is why it is so important for an owner to start thinking and planning for “life after work.” An exit strategy helps protect the business owner, his or her family, employees, and company when expected or unexpected situations surface. If an exit plan is not created before it is needed, it will be constructed during a crisis, with potentially disastrous results (**NWFN 2**).

There are many ways to approach a successful solution to your succession plan, but there are a number of steps that should be acknowledged by the business owner to create a thorough plan able to stand the test of time. These steps will act as roadmap to create a pipeline of potential leaders. Every business owner should consider the following steps:

1. **Organize a team.** Before deciding on a succession plan, you should involve a number of different experts like an: attorney, accountant, and other key business and estate-planning professionals. These are the people who will provide you with the knowledge to create a successful plan.
2. **Consider incorporation.** Business owners can convert their company to a corporation which will help ensure the continuation of the business in the event of the death or incapacity of the owner and/or business partners. Corporate status provides for "permanent existence" of the business and also limited liability for the business owners.
3. **Train your successors well.** Selecting and grooming a successor can take months or years to familiarize them with the finer points of a business. Therefore, it is important to select a successor as soon as possible, and one who will be able to step into the business owner's shoes easily and pick up where he or she left off.

4. **Document your beliefs and desires.** A business will is a comprehensive planning tool that details, step-by-step, a business owner's plans for the continuation of their enterprise. A "business will" includes your management plan and the name of your successor. An important component to a business will is a buy-sell agreement. A buy-sell agreement can obligate one party to buy, and the other to sell his or her interest in the business, following a triggering event, such as the owner's death or disability. It can be structured in a number of ways, but the owner should have their planning team assist them in selecting the structure that will be the most effective for their buy-sell agreement.
5. **Have an insurance plan.** Even though a buy-sell agreement can help ensure your business will remain with your family or business partners, the owner will need to make adequate funds available to fulfill the commitments of the agreement. Life insurance is a way the business owner can fund the business to provide adequate liquidity needed when an event brings about the sale of an ownership interest. In the event of a disability, disability buy-out insurance is available to fund the purchase of the business.
6. **Develop an estate plan that ensures adequate liquidity.** Without prior planning, a business owner may be without funds that will be needed to pay costly estate taxes. Everyone knows death and taxes are the two things you can not avoid. When a business owner passes away, there are significant tax issues. The ownership of the business does not simply transfer tax free to other family members. As a result, one aspect of succession planning is making sure there is money on hand to pay any tax liability. An owner can avoid that fate by purchasing life insurance, but an owner should also consider transferring part of their business ownership to family members using certain gifting or sale techniques. While turning over some control of the business may be a challenge, it will shrink your assets and reduce the estate tax liability.
7. **Discuss your plans to parties involved.** Eliminate any surprises by telling your family and management team the general details of your business succession plan, such as who will take over as owner of the company and why. Going through the business succession planning process with the family, along with a team of experts, will save the successor and the business owner's family a lot of concern.
8. **Review and update your succession plan periodically.** Once the owner has established a plan, review it periodically with your team of professionals to address any changes that may be required. If the business owner has had a major change in his or her personal life, such as a divorce or change in your personal will, be sure to immediately revise the business plan as necessary (NWFN 3).

### **Talent Pipelines**

In the process of succession planning, there are collaborative roundtable discussions that act as a talent review process from unit to unit, including all key positions and individuals. Business owners use assessment tools, based on the organization's core competencies, to identify candidates who most closely fit the profile. Also, owners obtain reports and feedback from the candidates' peers to help establish that person's leadership qualities.

There is a possibility that a business owner may hire a leader from another country. If so, an owner should hold discussions with high potential global leaders. In most cases, international leaders will have relocation, travel, and family concerns. This decision is significant for both the company and the individual when someone is selected for succession and development into a career in global leadership or management.



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Candidates in the leadership pipeline can be developed aggressively, especially considering the growth of global business and outsourcing. Internal and external training programs should be enforced when seeking a position for leadership. Workshops, attendance at seminars and trade shows, stretch assignments, simulations, job shadowing, international travel, case studies, cross-cultural exposure, and sensitivity training should also be considered as applicable tools in the development of leadership.

Most development gurus recommend that seventy percent of training be "on-the-job" and twenty percent be coaching and mentoring-based. These experts believe the last ten percent involve the candidates in formal, classroom-style instruction. One-to-one coaching and mentoring is most often ignored but it is a key component to ensure that high potentials, as they are being groomed for potentially pivotal and stressful roles, have a confidential relationship with someone more senior in the organization. These mentors coach the candidates into real-life situations and assignments that cultivate them into leaders.

For all business owners, a typical goal is to have two successors ready for every critical leadership position. These successors should be ready for roles that exist today and those that are anticipated in the near future. New approaches to competencies or succession planning do not need to be invented for the global services and outsourcing arenas. For a steady advancement for an organization, solid time-proven practices in leadership identification and development, powered by a commitment to maintaining the standards and morals of the business, will put most organizations in good standing (**Blackman & Schweyer**).

### **Understanding Family Business**

The most difficult aspects of succession planning always involve people and their family issues. Estimates show there are three million family-owned businesses in the U.S. Therefore, conflicts about succession are sure to rise. A family firm is defined as a business where family members participate in and have major control over the strategic direction of the business. Family businesses have many things in common with other types of business, like their leadership view. Some family businesses have an entrepreneurialism view. This view allows the business to be inspiring and visionary. This view can also threaten those who are uncomfortable with ambiguity and risk. However, these types of businesses are comfortable taking risks.

Businesses can also view themselves in a managerialism way. These businesses are concerned more on administrative procedures and organizational structures. Managerialism can either lead to a bureaucratic structure or a laissez-faire approach. A bureaucratic structure has many drawbacks which include the stifling of creativity, the difficulty of a business to be flexible, and how quick a business responds to environmental changes. A laissez-faire approach allows everyone to do whatever he or she wants and can be the result of an entrepreneur's lack of management skills and the assumption that everyone knows what they are supposed to do.

Finally, family firms can be viewed as paternalistic, meaning owners care the most about the protection and guardianship of the family business. This view tends to create the most problems. The negative aspect of paternalism is that it tends to close off the business from fresh ideas. It also tends to take away the employee's responsibility and freedom to choose. Today, most industries are in a state of emergency, so it is most important that family businesses open themselves to new ideas from new sources. Family firms should view their business as a combination of entrepreneurialism, managerialism, and paternalism. This allows the business to be composed of awareness and emotion.

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## **Future Disruptions with Family Business**

Conflicts in family firms include: parent-child, mother-son, and sibling rivalry. Generally, the parent-child bond is the strongest emotional bond but can result in high levels of conflict. If parents suspect that their children will not be able to work together for the good of the business, they may decide to divide the business among the children using separated revocable trusts with trustees chosen by the children. If parents find out the children are not acting in the best interests of the business, the trusts could be revoked and the assets taken back. Most estate planners advise that the parent appoint an independent person or institution as trustee to avoid conflicts among the children (**Allen**).

The mother-son relationship has usually been looked at as a positive one. However, conflicts can arise if the father has died or the mother has remarried. An effective succession plan would protect the inheritance of any children and allow the mother use of the assets as long as she is alive. If the children are not capable of taking over the management of the company, a professional manager should be hired and overseen by the board of directors that would protect the interests of the family (**Allen**).

In most family businesses, sibling rivalry causes the most conflict. Issues such as a favored child, different talents, competition, and the need for fairness should all be addressed. Multiple issues make succession planning almost impossible. Therefore, the parents may consider creating a private trust company in which one parent is the CEO and each of the children has a specific role. Additionally, the family assets could be placed in a separate trust where the private trust company is the trustee. In this way, the siblings can work together after the death of the parents and keep the family business together for future generations (**Allen**).

## **Harvesting the Wealth for a Small Business Owner**

In the early stages of growing a business, many entrepreneurs are so busy running the business that they do not think about constructing a plan for a time when the owner is unable to do his or her job. A succession plan will help the owner harvest the wealth of his or her business. However, understanding the vision for the future of the business will help the entrepreneur make better decisions as the company grows. Entrepreneurs should take three steps as early as possible in the life of their business:

1. Create a small, informal advisory board to guide personal wealth planning. These people can include an accountant, tax attorney, and an estate-planning expert.
2. Acquire a mentor to take charge when absent. In general, successful entrepreneurs enjoy helping new entrepreneurs build their success.
3. Focus your attention on the aspects of the company that create sustainable value, such as intellectual property, customer base, vendors, suppliers, salespeople, manufacturers, and professional advisors.

Small business owners have many options when they feel the need to harvest the wealth they have created. This choice depends on whether the entrepreneur wants to offer his or her business as a public offering, sell the business, cash out of the business but stay involved, merge with another company, or sell to employees (**Allen**).

### **Going Public**

Going public is one way to harvest some of the wealth a business has created including the owner's initial investment. Many entrepreneurs and investors see the initial public offering as the ultimate liquidity event. If the early funding of the firm was with venture capital, then an

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IPO or sale may be the only options that satisfy your investors. However, going public can actually limit the exit options and define the exit strategy for an entrepreneur. It is possible to structure an IPO deal that will pay the entrepreneur a portion of the funds received when the offering is sold. However, “insider stock,” stock that does not flow through the public offering, is generally subject to a 180-day lock-up period. During this period, founders and investors are prohibited from selling any shares in the market. A quick sale of insider stock can send a negative message to investors who have committed to the growth of a business (**Allen**).

### **Selling the Business**

Small business owners who want to leave their business behind generally sell it outright. The advantage of selling your business is that the owner will receive his or her investment and capital gains in the sale. Additionally, this will allow the owner to be free to move on to other ventures. The ultimate goals of a sales transaction are to maximize the value of the business and create liquidity so the owner can exit.

A decision to sale must be made at least three years in advance for an owner to receive the maximum amount of money for his or her business. For example, to command a higher price, it would be important to show increasing earnings. This can be accomplished by: increasing advertising, adding a new salesperson to increase sales, or finding ways to reduce expenses. It is also a good idea to sell any unproductive assets or inventory that have lost value because the buyer will not want to purchase these in the sale because it could discourage his or her value. If the business includes real estate, it might be beneficial for the owner to put the real estate under different ownership, such as a limited partnership or limited liability corporation, so that the seller can lease it back to the business. The business owner will also want to replace outdated equipment, spruce up the business facilities, and clear up any legal claims the business might have.

For any business sale, it is important to find a buyer who understands and wishes to maintain the culture, values, and morals of the business. A potential buyer with different values will definitely create a culture shock for seasoned employees. Selling a business is a complex process involving value appraisal, prospect acquisition, negotiation, and contracts. Business owners who attempt this process alone are not making a wise choice. A business owner should seek the assistance of professional business brokers, investment bankers, and appraisers because they can handle the complexity of this process (**Allen**).

### **Cashing Out but Staying In**

There are several ways to remove a business owner’s investment in whole or in part from the business while allowing the owner to remain involved. One is by selling stock to other shareholders in the company or the other is by splitting the business in two to cash out. When an owner decides to split the business in two, the owner will leave control in the hands of the new owner but maintain control of the assets. In doing so, the new owner manages the operations of the business and leases the assets from the original owner. This will give the original owner a stream of cash from the lease of property.

Another possibility is a phased sale in which the business owner decides to sell the business in stages. For example, in the first stage, the owner sells off a portion of the business but retains control of operations until the company has reached an agreed-upon deadline. In the second stage, the owner sells the remaining portion to the buyer. In this way, the owner ensures that the buyer will perform as expected.

### **Merging**

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A merger of one company with another is a cross between a sale and a partnership. The most common type is a forward merger. This is when the company for sale is acquired and merged into the buyer's company so that it eventually disappears. In a reverse merger, the buyer's company merges into the seller's and the seller's company is the only one remaining. Depending on how the deal is structured, the owner may be able to cash out some of his or her holdings and stay on in a paid-management position. The owner can negotiate to sit on the board of directors for the other company.

When considering the merger route, it is important to look at the other company to make sure that the two companies have similar goals, operations, and cultures. Merging two completely different companies is a strategy bound for failure. It is also important that the companies be located fairly close to each other to permit effective management.

### **Selling to Employees**

A company with more than twenty-five employees, an annual payroll of at least \$500,000, and revenues of at least \$5 million may be a candidate for an employee stock ownership plan. This approach lets the business owner cash out of the company but remain in control. Many owners, who sense that employees should become owners in the company, have chosen this route. ESOP's are tax-qualified pension plans governed by the Employee Retirement Income Security Act and the IRS. ESOP's have many advantages, but they are expensive to set up and keep running. If employees decide to leave, a private company will have to repurchase their stock. The biggest repercussion of an ESOP is that the company must share much more information with its employees than previously done.

### **Small Business Succession Planning**

Succession is a process, not an event. Business owners do not decide to retire at five on Friday and have their partner or someone else assume the leadership on Monday. It is not that easy. Planning to have someone succeed the owner in the business is as important as any other component in business planning. Over time, a business will develop a number of loyal employees who have worked their way up in terms of responsibility and authority. They are the equivalent of the next generation in a family business and should be considered as candidates to succeed the owner.

### **Start with a Vision**

Poor succession planning can breed uncertainty and other offspring like lowered staff morale, loss of competitive momentum, loss of shareholder confidence, staff shortages, and reduced productivity. The term "succession planning" addresses situations organization's face based on their size, what its owners or shareholders are trying to achieve, and whether the business is in the public or private sector. For large enterprises, "succession planning" usually refers to the ongoing development of potential successors from within the business to ensure a smooth transition and minimum loss of efficiency when management vacancies occur (**Bland**).

Any effective succession plan begins with the owner's vision, values, goals, and an understanding of how these relate to the future of the company. It also addresses the owner's goals for the next stage of his or her life. By taking time to identify possible exit goals, a business owner has a better chance of aligning a harvest strategy with those goals.

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## **Value the Business**

Once the goals to succession are established, it is time to determine the value of the business and its readiness for transfer of ownership. Readiness refers to whether the business is in a good position to be sold or transferred. This is a troubled task, so valuing a private enterprise should involve a professional appraiser. If the business has a number of weaknesses, these should be fixed and cleaned up to increase the value of your business.

## **Choosing the Successor**

In family and small business, succession planning means identifying the talent and abilities of individuals within a business when owners are going to be absent. It helps to figure out who has the potential and inclination to succeed current leaders to keep the business running smoothly. This requires the commitment of the entire management team along with external consultants and advisors. It is not a job for HR alone, nor is it easily accomplished by business owners who want to exit in a hurry.

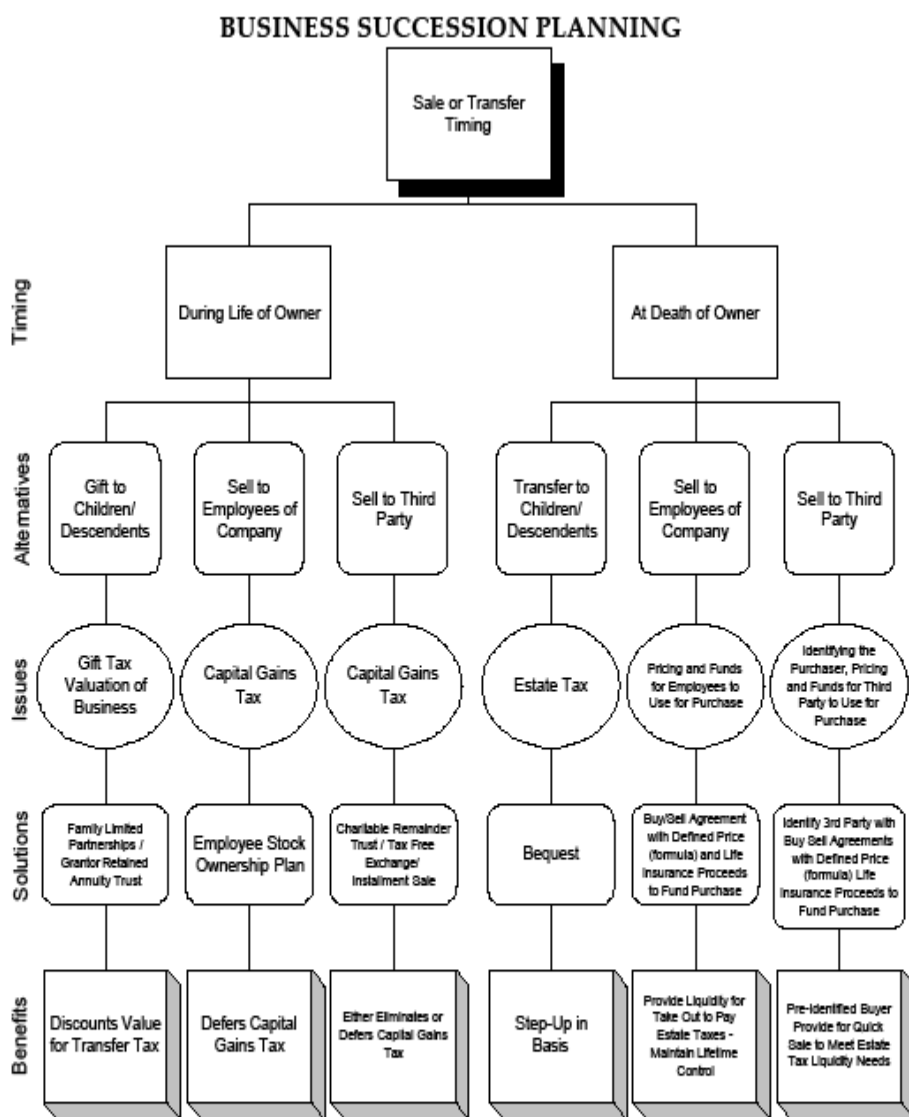
The strategy for choosing a successor does not have to be detailed, but it should have policies to guide this strenuous decision-making process. These broad policies should include:

1. An equal way to determine whether outside or inside talent should be used.
2. A period where insiders are given a chance to prove they are capable of doing the job
3. A set of criteria that applies to outsiders and insiders.
4. A plan for compensation.

Internal candidates wishing to succeed the owner must be able to demonstrate their understanding of the business, its operations, and its financials. An employee, who is chosen to assume the role of CEO, should go through a period of apprenticeship before taking on the position fully. Learning the ropes from the owner before succession will give the new CEO a jumpstart to make the transition smoother. Most successful companies promote from within their companies, but it is important to look for fresh viewpoints from other sources with the same characteristics.

## **Prepare Stakeholders for Succession**

Preparing employees for succession is important, and the process should begin with regular meetings several months in advance. This assures that employees are kept informed of what is happening in the business. For a successful transition, the owner needs to stay on and gradually phase out-of-sight of business which will provide for a smoother transition in leadership.



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**Business Succession Statistics**

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In the next five years, thirty-nine percent of family owned firms will experience a change in leadership due to retirement or semi-retirement. It is shocking to know that fewer than thirty percent of these family owned businesses will survive into the second generation and even fewer will make it to the third generation. According to the Small Business Administration, three out of ten small businesses survive through the second generation, and about a third of all businesses have no designated successor. Most business owners have already established procedures to ensure that employees are paid on time, vendors are paid in a timely manner, and that payroll taxes are paid by the deadline, but if something unexpected happened to the owner of a family business, how prepared would his or her business be (**Allen**).

Succession planning is not the domain of big business exclusively. As of 2000, more than eighty percent of the twenty-five million businesses in the United States are closely held sole proprietorships, partnerships, or LLCs, and ninety percent of those are privately owned. An estimated forty trillion dollars will change hands between the years 1998 and 2052 as baby boomers pass on their accumulated assets to their heirs. A portion of that wealth transfer will result from the retirement or death of small-business owners.

Most business owners have not planned because they have been too busy working in their business, instead of on their business. Business owners need to take interest in making critical decisions about transferring business ownership to their children, selling the business, or maintaining passive ownership when they depart their business. It seems that planning for the survival of a business is a critical task that must be accomplished. As a result, succession planning for boomer business owners will be one of the hottest professional service niches in the next decade (**Sachs**).

#### **Among the specific findings for 2005:**

- **Advisory boards work.** Boards of directors are becoming more responsive to shareholder and regulatory pressure, and are more proactive in ousting underperforming CEOs. Of companies worldwide, one in seven boards replaced its chief executive in 2005. This is the highest level in the past eight years and seventy percent higher than in 1995. This turnover level will likely last for a number of years.
- **CEOs are as likely to leave prematurely as to retire normally.** Continuing a pattern from 2004, in 2005 nearly half of all CEO departures were due to poor performance or mergers.
- **“Repeat chiefs” are increasingly common.** More than one in eight of the CEOs who left office this year had previously served as leader of another company. More and more, active CEOs are moving directly from one large company to another, a phenomenon called “beggar thy neighbor.”
- **Outsider CEOs flame, and then fizzle.** During their first two years in office, CEOs brought in from outside the company produce returns for investors that are nearly four times better than those achieved by insiders. But as the tenure of their leadership grows, insider CEOs tend to do much better.
- **Nonchairman CEOs are now the best performers.** Of CEOs who left office in 2005, those who never served as chairperson of their companies outperformed those who served in the dual role of chairperson and chief. In North America over the last three years, nonchairman CEOs produced shareholder returns three times as high as those leaders performing both tasks.

- **The former CEO should not remain as chairperson.** CEOs who serve in an “apprenticeship” model, in which the chairperson is their predecessor, generally do poorly.
- Troubled companies look for outsiders, who do not necessarily succeed. Among the CEOs who left office in 2005, those who had been hired from outside had taken charge of companies with, on average, far worse performance records than those who had been promoted from within. In North America, for example, twenty-nine percent of the companies with negative performance in the prior two years had hired an outsider versus only six percent of positively performing companies (Lucier).

### **Success Factors**

There are several factors found in successful succession planning projects. For example:

1. Senior leaders are personally involved.
2. Senior leaders hold themselves accountable for growing leaders.
3. Employees are committed to their own self-development.
4. Success is based on a business case for long-term needs.
5. Succession is linked to strategic planning and investment in the future.
6. Workforce data and analysis provide information for the process.
7. Leadership competencies are identified and used for selection and development.
8. A pool of talent is identified and developed early for long-term needs.
9. Development is based on challenging and varied job-based experiences.
10. Senior leaders form a partnership with human resources.
11. Succession planning addresses challenges such as diversity, recruitment, and retention.

### **Recommendations for Small Businesses**

Business succession planning is a critical part of estate planning and wealth management planning. The statistics make it clear that a huge number of baby boomers have created and grown many successful businesses. Many of them now are considering retirement and desperately need business succession planning. There are really two main options. One is business succession planning during the business owner’s life and the other is at the business owner’s death. While the demand for effective managers continues to grow, the retirement of baby boomers is producing a sharp decline in the ranks of available personnel. In addition, the executives of the future are expected to be more sophisticated to develop and lead new global and technological initiatives. For these reasons, careful planning for the eventual replacement of leaders at all levels of the organization has gained strategic importance (**Fulmer**).

When you are on the inside, succession planning looks terribly difficult, but from the outside it is not that difficult at all. Firms interested in improving their succession management should follow these recommendations:

1. **Keep the process simple.** Most refinements to succession management systems involve making the process more logical and simple so that busy line executives will not feel that bureaucracy is burdensome.



2. **Design a succession plan.** Your plan should assess the current corporate culture and determine how it needs to change in the future. Your plan should also assess high potential managers' strengths, weaknesses, and succession readiness. This will allow you to develop a set of leadership criteria and development approaches.
3. **Engage technology to support the process.** Information technology makes it possible for managers throughout the world to monitor and update developmental needs and activities on a timely basis. Web-based systems offer great potential for worldwide access and large-scale integration of data. Technology serves to facilitate the process, make it shorter, simpler, or more flexible, rather than becoming the focus of the process or inhibiting it in any way. Making information timely and reducing the time required to manage the system are major contributions of technology.
4. **Monitor business needs.** Line executives are much more likely to support a system that clearly reinforces their own goals as well as the business's goals and objectives. Organizations need to develop methods of assessment to monitor the succession planning process which vary according to the business goals' and culture.
5. **Secure senior level support for the process.** None of the best practice firms would have been as successful without top management endorsement and support. Successful firms are building systems that provide talented, high performers opportunities to grow.
6. **Developmental Activities.** Owners need to make use of a wide range of developmental activities to engage future leaders and extend their capabilities. These firms should spend considerable time creating stretch goals that are consistent with the organization's needs. They also need to provide mentoring, coaching, and temporary assignments for future leaders. In addition, firms can utilize 360-degree feedback and job rotation.

Succession planning is not easy. This is why over forty percent of companies do not have a CEO succession plan in place. Best-practice organizations make succession planning an integral corporate process by showing a link between succession planning and overall business strategy. This link gives succession planning the opportunity to affect the corporation's long-term goals and objectives. Articulating corporate vision to feed succession goals and contingencies is something that can get postponed when owners are working "in," rather than "on," their business. But becoming aware of what is needed and getting started early is a good thing to do, especially in uncertain times (**Fulmer**).

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# **A CASE FOR ECONOMIC AND CULTURAL FACTORS AFFECTING THE ADOPTION OF AUTOMATED MILKING SYSTEM TECHNOLOGY AMONG DAIRY FARMS IN THE UNITED STATES AND THE NETHERLANDS**

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## **INTRODUCTION**

### *Overview*

The dairy industry is extremely important to both American and Dutch agricultural economies. Both these countries have rich entrepreneurial histories, and both are world leaders in the industry. These farms have traditionally been operated on small acreage with small herd sizes, and a collection of milking machines operated by family labor.

However, this picture is rapidly changing on dairy farms in each country. Large dairy farms are presenting a challenge for American and Dutch small dairy farmers alike. These farms are producing large quantities of milk more efficiently, and are thereby shifting the distribution curve to the right, forcing small dairy farmers to choose between the options of selling out, expanding, or adopting new technology to aid in the struggle for survival.

Ever since they were developed by Dutch researchers in the early 1990s, more and more farmers in The Netherlands have been installing this new milking technology, called Automated Milking Systems (abbreviated “AMS”). These systems, true to their name, eliminate the need for traditional manual labor in milking a herd, as well as offer cost savings in both labor and time. Today, this technology has spread throughout various countries in the world, for a total of over 1,200 automated dairy farms with well over 200 of those in The Netherlands alone (Geleynse, 2003; Schukken et al, 1999).

In the United States, however, the technology of AMS has been slow to catch on. A statistic from 2003 showed a total of just 20 operational milking robots spread over 8 U.S. dairy farms (Geleynse). Tony Brazda, an AMS Solutions Manager of DeLaval, a milking equipment supplier, estimates that less than 1% of U.S. dairy farms have AMS (McGee, 2006). This may be surprising to some, especially when considering the comparatively similar dairy operations on family farms in the Netherlands and in the United States.

Why wouldn't American small dairy farmers wish to adopt such a technology in order to increase their chances for survival? Dutch farmers would seem to think this new technology is a good alternative to either going out of business or expanding their operations. And indeed, AMS is a breakthrough innovation, highly regarded by those few American dairy farmers who have implemented it on their own farms. However, this is not such a cut-and-dry situation, in which an innovation with favorable attributes is guaranteed to diffuse via a high rate of adoption. According to E. M. Rogers' theory of rate of adoption, there are other variables than just the innovation's attributes that contribute to an innovation's adoption rate, including the variable of Social Systems. This is the case of AMS as it is experiencing a higher rate of diffusion in The Netherlands than it is in the United States. I will henceforth attempt to develop this case within

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Rogers' framework, describing the nature of the socio-economic variables contributing to the spread of AMS technology in The Netherlands versus the United States.

My central research question, then, is: How do the natures of Dutch and American social systems impact the rates of diffusion of AMS in each country?

My reason for writing is to explore whether theory may be used to explain a phenomenon occurring in the dairy industry today. This phenomenon – that is, the spread of automated milking system technology – may fit a theoretical pattern of innovation diffusion, and thus may be considered as a case study for the various factors that may affect rate of adoption.

While I do not have personal experience with small dairy farms in The Netherlands, research tells me that they, too, are being challenged by the same issue of survival. In fact, the United States and The Netherlands have both been shifting toward an environment in which a few, extremely large and efficient dairy farms have been producing high milk yields. These few farms skew the distribution curve to the right, thereby forcing small to mid-size farms to get bigger – or to become more efficient – in order to stay in the curve. Many small farms have found this to be an impossible task, and have already been choked out of the dairy industry. When these small farmers leave the business, the national farm and inventory counts drop.

The number of large farms in the United States is significantly growing (25.0% from 1997 to 2000) while the number of smaller farms is significantly declining (-23.9% from 1992 to 2000).

These 2,631 large dairy farms are producing the bulk of the U.S.'s total milk. Tables 9 and 11 are interesting – and alarming – in gaining perspective on the cow distribution in the country. The average number of cows per operation has increased from 57 to 88 from the year 1992 to the year 2000. As previously discussed, this pull in the distribution curve can be attributed to the rise of large dairy farms. Furthermore, the number of dairy cows in the United States has decreased by 4.9% from 1992 to 2000; yet the 500+ cow category was the only herd size category to increase in percentage of total cow ownership nationwide over the span of 8 years. These large farms own increasingly large percentages of the steadily declining cow population within the United States.

Statistical data from the dairy industry in The Netherlands is not as complete as the statistical data from the American dairy industry. In matters of production, Pierik in 2001 stated that farms smaller than 50 Dutch size units are too small to generate enough income to provide an average level of prosperity for a family, and nearly half of all Dutch farms are below this threshold. When combined, the 24,000 smallest Dutch farms produce as much as the 100 largest Dutch farms (Pierik, 2001). This is much like the situation in the United States, where a handful of large farms are shifting the distribution curve, forcing smaller farmers out, and subsequently reducing the total number of dairy farms nationwide. Indeed, Hiethaar in 2003 stated that the number of Dutch dairy farms decreased by 50% to 25,000 from 1988 to 2003.

In essence, the rich appear to be getting richer while the poor appear to be getting poorer. While the reasons for such relatively few massive and efficient dairy farms are beyond the scope of this paper, the main take-away points are as follows:

- There are more large dairy farms developing every year.
- Large dairies can produce more efficiently than small dairies.
- Large dairies are taking away market share from small dairy farms.
- Large dairies are taking away cows from smaller dairy farms.
- Large dairies are forcing small dairies out of business by shifting the distribution curve.

Stagnation on the part of either the American small dairy farmer or the Dutch small dairy farmer is out of the question. If they are to compete with large dairies, or even survive in the presence of large dairies, these farmers must take action. Whether that be sell out, expand, or adopt technology is the question. However, this decision is not solely up to the farmer; nor is it solely up to the farmer's perception of the beneficial attributes of AMS. Other factors influence the choices that small dairy farmers in either country make.

In the following section, I will outline a theory by Everett M. Rogers, a University of New Mexico professor and chair, as well as an acclaimed writer on innovation. I am particularly interested in Rogers' model of the variables contributing to rate of innovation adoption and its relationship with the spread of AMS technology.

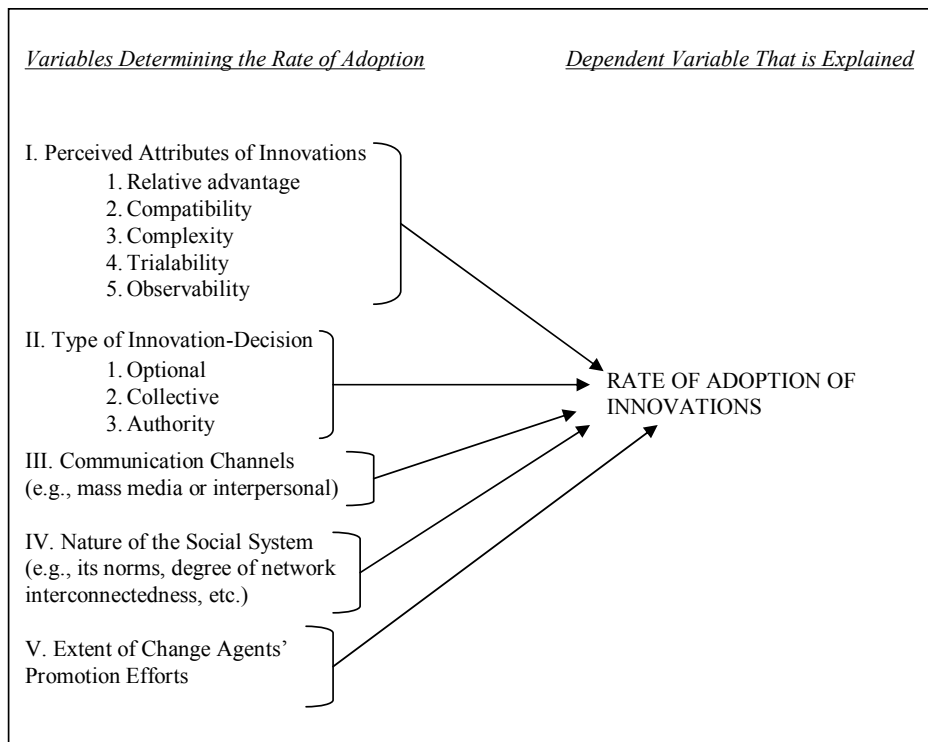
### **Propositions and Model:**

It is my belief that the comparatively slow rate of AMS adoption throughout the United States versus the rate of AMS adoption throughout The Netherlands is consistent with Rogers' theory. However, while AMS may have the competitive advantage over tradition milking systems in terms of the attributes of the innovation itself, there is another variable tucked inside Rogers' model that could account for such differences in adoption rates. This variable is one to which I have previously alluded: I believe Rogers' variable of the "Nature of the Social System" most directly applies to the case of AMS adoption. More specifically, the socio-economic contexts of the American and Dutch social systems respectively contribute to and help explain why AMS has had such a slow adoption rate in the United States, and such a rapid adoption rate in The Netherlands. By "socio-economic", I refer to each country's national economy and work culture.

First, one must understand the concept of *rate of adoption* to understand Rogers' entire theory, as well as the concepts derived from it and presented in this study. Rate of adoption is used to describe the "relative speed with which an innovation is adopted by members of a social system" (Rogers, 1995). According to Rogers' *Diffusion of Innovations, Fourth Edition*, an innovation's rate of adoption is determined by at least five variables: Perceived Attributes of Innovations, Type of Innovation-Decision, Communication Channels, Nature of the Social System, and Extent of Change Agents' Promotion Efforts. Rogers illustrates this theory in the model below.

### ***Figure 1: Variables Determining the Rate of Adoption of Innovations***

*From Diffusion of Innovations, Fourth Edition by Everett M. Rogers*



It is the first (and in the model, the top) of these variables on which Rogers' emphasizes and elaborates the most. That is, he spends a great portion of his text dealing with the five Perceived Attributes of Innovation: Relative Advantage, Compatibility, Complexity, Trialability, and Observability. Accordingly, the more of these attributes an innovation possesses, the greater its likelihood for a speedy rate of adoption.

The first attribute, Relative Advantage, refers to the perceived benefits created by the innovation over the benefits created by the existing idea. According to Rogers, this phenomenon may be measured by using such indicators as economic profitability, social prestige, or other benefits (1995).

Compatibility is the "degree to which an innovation is perceived as consistent with the existing values, past experiences, and needs of potential adopters" (Rogers, 1995). An innovation that has compatibility will, in turn, "warm" that innovation up by making it familiar to the consumer, thereby increasing its rate of adoption. Rogers states that innovations may be compatible or incompatible with sociocultural values and beliefs, previously introduced ideas, and/or client needs for the innovation (1995).

The third attribute of an innovation is its level of Complexity – that is, how difficult the innovation is to understand and use. The more complex an innovation is, the lower its rate of adoption, and vice-versa.

Trialability is the fourth attribute outlined. It measures the "degree to which an innovation may be experimented with on a limited basis" (Rogers, 1995). Should a consumer be allowed to "try" an innovation before committing to it, that consumer is much more likely to adopt the innovation.

Observability rounds out the attributes of innovations described by Rogers. This term is simply used to describe the extent to which results of an innovation can be seen.

After all this is said and done, however, I propose that Rogers' five Perceived Attributes of the Innovation (in this case, AMS) are not the deciding factors in explaining the rates of adoption within The Netherlands and the United States. While the innovation itself may prove vastly advantageous to its predecessor (Traditional Milking Systems) for both Dutch and American small dairy farmers, it is the Social Systems of The Netherlands and the United States that ultimately account for the difference in adoption rates of AMS in either country. More specifically, it is the way in which the economic variables of land and labor availability, coupled with the cultural attitudes toward work, that provide the socio-economic context in which the small dairy farmers of each country are "solving" their mutual challenge of survival.

## **Method**

To conduct this research, I chose secondary sources. Data was needed in three categories: Automated Milking System reviews, Economies of both The Netherlands and the United States, and Cultural information on the work centrality of citizens of both The Netherlands and the United States.

The search for automated milking system reviews was conducted within the field of trade journals and local newspapers rather than academic journals. Testimonies from actual farmers using the technology would likely be more prolific in these, as would specific descriptions of traditional milking methods and automated milking methods expressed in the jargon of the industry. This was particularly important to me as I believe it not only educates the reader, but also adds a certain depth to the subject.

The economic information was gleaned primarily from census bureaus, both Dutch and American. For the former, the Centraal Bureau voor de Statistiek (Statistics Netherlands) proved especially helpful in collecting data regarding land and labor statistics, as well as dairy farm demographics. Agricultural data for the United States was primarily found at the National Agricultural Statistics Service (NASS) and the Economic Research Service of the United States Department of Agriculture.

Finally, a cultural comparison of work centrality was deduced from a previous study done by Tom W. Smith of the National Opinion Research Center of the University of Chicago. The study was entitled *A Cross-national Comparison on Attitudes towards Work by Age and Labor Force Status*, and compared, among other nationalities, Dutch and American attitudes toward work over six categories of quantitative measures.

The unit of analysis in this study will be the small dairy farmers within the context of their American and Dutch national social systems, respectively. The study will develop around the socio-economic factors of each country that lead to the small dairy farmers' decisions for survival.

## **MILKING SYSTEMS**

In this section I will strive to highlight the stark comparison between the "old way" and the "new way" – that is, milking traditionally or milking with the innovation of automation. I will first discuss the characteristics of traditional milking systems, including the milking parlor configurations, milking machines, and manpower and procedure. Then I will present a similar briefing on AMS, including a description of the machine and procedure. This section will culminate in a comparative table of traditional vs. AMS based on an outline of Rogers' five perceived attributes of innovations.

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## TRADITIONAL MILKING SYSTEMS

There appears to be a fairly standard milking routine common to both the United States and Europe, including The Netherlands. Milking equipment suppliers such as Swedish company DeLaval and American company WestfaliaSurge are able to sell their milking parlor configurations and equipment worldwide, with little variation from country to country. The human element is also common in support of this equipment; manual labor is needed to guide animals into the parlors, prepare them for milking, and clean the equipment afterward.

### Milking Parlor Configurations

Traditional American and Dutch dairy farmers have several different milking parlor configurations to choose from, including: Side Opening (Tandem) Parlor, Herringbone (Fishbone) Parlor, Parallel (Side by Side) Parlor, Swing (Swing-over) Parlor, and the Rotary (Carousel, Turnstile) parlor (Reinemann, 2003).

Side opening parlors do just as their name suggests. After a cow enters the parlor from an entrance gate on one end of the facility, she walks down either of two rows of stalls. Each of these stalls has its own separate side-opening door, which allows the animals to be milked at their own paces (much like individual voting booths allow voters to vote at their own paces). After milking is completed, the door swings open, the cow returns to the herd via a return lane on one side of the parlor, and the next cow is free to take her place to be milked.

Herringbone parlors, according to Douglas J. Reinemann, Ph.D. of the University of Wisconsin at Madison, are the most common parlor type in the United States for ‘small’ parlors – that is, less than a double 12 (in which 24 cows can be milked at once in two rows of 12) (2003). After the milking is finished, gates release all the cows at once, which then form a single-file line down the return lane and back to the barn.

A third type of parlor is the parallel parlor, in which the cows line up in two rows at a 90-degree angle away from the operating area. In this configuration, milking unit attachment and udder sanitation are concerns; however, with two return lanes – one on either side of the parlor – the cows are able to make a rapid exit back to the barn after milking (Reinemann, 2003).

Swing parlors are a hybrid of herringbone and parallel parlors. A cow enters one of two rows and stands face out at a greater degree than a herringbone but less of a degree than a parallel parlor. The milking units are attached to an H-Frame pipe configuration hanging from the ceiling between the two rows. This allows the “swinging” of milking unit from one row, across the operator’s pit, to the other row. After the cow has been milked, she can walk straightforward and out of the parlor in a rapid-release style (Reinemann, 2003).

Finally, rotary parlors are circular, mobile configurations of stalls in which cows “ride” with their heads facing in and backsides pointing out. There is one entrance and one exit, for which the cow will use to walk in and back out of, respectively. Rotary parlors are usually the choice for larger herds of over 1,000 head, due to the facts that they are more consistent and efficient than herringbone or parallel parlors of equal size, and also due to their high capital cost per stall (Reinemann, 2003).

### Milking Machines

All milking machines operate on the basic principle of suction, which is key to the extraction of milk from a cow’s udder (Wattiaux, n.d.). After the initial preparation, a spider-like



contraption (called a “milking cluster”) comprised of a “claw”, pulsation tubes, and “teatcup shells” is affixed to each of the cow’s four teats via suction. A valve on the claw of the milking cluster regulates this vacuum level and initiates the milking process. Milk is literally “sucked” out and pulsated through tubes; the pulsations control fluid congestion and edema of teat tissues (Wattiaux, n.d.). These tubes also carry the milk away from the milking unit and toward a storage unit (Wattiaux, n.d.). When the cow has been completely milked (approximately 10 minutes), flow sensors tell the valve on the claw to shut off, and the teatcup shells are automatically released.

### **Manpower and procedure**

Depending on the herd size and parlor configuration, anywhere from a single man to multiple men may be needed in the milking process. The first step is to herd the cows from the barn(s), down an alley and into a holding pen outside the milking parlor. Usually, if multiple men are involved, half of them will be responsible for this task, while the others stay in the parlor and prepare the cows for milking. Preparation, or simply “prep work”, involves foremilk (2-3 squirts to examine for abnormalities), dipping the teats with a sanitizing iodine solution, and wiping the udder with paper or cloth towels. After this prep work is completed, the operator(s) manually attach the teatcups to each cow. According to a tip sheet from DeLaval, milking clusters must be attached within 60-90 seconds after teat prep in order to minimize air entries during cluster attachment (2006). Also important is to adjust the cluster so that it is properly balanced on the teat from front to back, and side to side, with no twisting (12 Golden Rules, 2006).

During the milking, some of the operators round up more cows for the holding pens, while the others stay behind to keep an eye on the milking units. These men must continuously check the vacuum levels and pulsation systems, making sure units are released at the correct time to avoid overmilking (12 Golden Rules, 2006).

After the milking, the cows’ udders are post-dipped, the operators open the gates to release the cows, and more cows are ushered into the parlor. This cycle continues until the entire herd has been milked. Afterward, the operators are responsible for the cleaning of the milking equipment, which is commonly done via power washer.

### **AUTOMATED MILKING SYSTEMS**

The concept of automated milking systems may seem confusing or even daunting at first. However, an AMS is merely a system of “basic, fairly simple” components developed around two concepts: getting the cow into the stall, and then milking the cow (Geleynse, 2003).

To address the former of these concepts, enticing an animal into the robotic milking stall is, in most cases, as easy as offering grain or hay for her to munch on while she is being milked. This, of course, is based on the famous principle of Pavlov’s dogs: stimulus and response (Kryzanowski, 2004). In fact, the cows seem to adapt rather well to milking themselves, as indicated by Tony Brazda: “Cows pick up their own rhythm. They’re habit-forming animals and typically adjust to the new process easily” (McGee, 2006).

The concept of milking requires a more detailed explanation. AMS consists of 6 main modules: Milking stall, teat detection system, robotic arm device for attaching the teatcups, teat cleaning system, control system including sensors and software, and a milking machine (including system cleaning) (Meijering et al 2002). The process of milking the cow begins once she has entered the stall. At this point, a computer identifies her by her electronic tag and determines whether or not she needs to be milked. If so, a side-opening gate closes; this gate is

not intended to lock her into place, but rather to allow her the freedom to move backwards and forwards as she is being milked ([www.lely.com](http://www.lely.com)). A metal arm on rollers then swings out to wash the animal's teats. After it retracts, a laser scanner locates the teats and relays this information to the arm attachment, which then places the teatcups accordingly, fitting them snugly on each teat via hydraulic suction (Tech Talk, 1999; Kryzanowski, 2004). Vacuum-activated rubber rings at the end of each teatcup massage the cow's teat, thereby prompting it to release milk (Vathis, 2002).

The milking process itself takes 8 minutes (1-2 minutes less than traditional milking systems) (McGee, 2006). During this time, an information swap occurs. Data about the cow, including last time milked and expected yield, is uploaded to the AMS's Linux-based interface from a database running on a Windows PC (McGee, 2006). Meanwhile, the AMS sends information back to the PC regarding the cow's milk production (Kryzanowski, 2004). This system can also be programmed to distinguish the difference between milk formulas, and can also separate the milk into different holding tanks (Kryzanowski, 2004). Farmers can even access the system from a PC or a PDA (McGee, 2006).

When the milk flow drops below a certain preset level, the individual meters on each teatcup shuts off the vacuums (Tech Talk, 1999). Once the teatcups are removed, the robotic arm moves away from the cow, each teatcup is washed by a sprayer unit, and the side gate opens to release the cow (Tech Talk, 1999).

One automated milking machine is capable of servicing 60 cows (Geleynse, 2003). The systems operate on a 24-hour-a-day basis, but only 21 of these hours are for milking (Kryzanowski, 2004). The remaining 3 hours are reserved for wash cycles and occasional unscheduled downtime for cleaning a dirty laser eye or replacing a hose (Kryzanowski, 2004). If problems occur during the milking operation, the system will dispatch a cell phone signal to the farmer or farmhand on call (Kryzanowski, 2004).

### **COMPARING THE SYSTEMS**

Let us review some of the characteristics of the traditional milking systems versus those of the Automated Milking Systems. The chart below is intended to provide the reader with a visual and more direct comparison of the key facts of the preceding information. These facts will also be presented as they fit with Roger's perceived attributes of innovations, thereby tying the concept of traditional versus automated milking machines to his theory for rate of adoption of an innovation.

The table above notes the clear advantage of AMS over traditional milking systems in relative advantage, compatibility/trialability, complexity, and observability – all five of Rogers' perceived attributes of innovations that typically increase the rate of adoption. It comes as no surprise, then, that this innovation should be so popular by those dairy farmers who employ it, and that those dairymen would have such positive feedback on their automated milking machines.

For example, in a "Round Table Interview" with Hoard's Dairyman – a national trade magazine founded in 1885 – Small dairy farmer Keith Brunner of Denmark, Wisconsin conveyed his and his wife's satisfaction accordingly:

*We have three Lely robotic units...Our decision was based on cows getting milked three or four times a day. Our 'milking crew' shows up on time every day; they repeat the same steps day in and day out. Now I can manage the herd a lot closer...watch for mastitis, sick cows, and heats. There's much less labor milking, and we could increase herd size without adding extra labor. 'Just the*

*fact that cows can milk themselves in a special treat. Then there's the wash cycles and back flush system after each cow has been milked, and the chemical control on wash cycles. Also, we can watch our cows' production daily on the robot's computer. Our alternatives were putting in a flat parlor or reducing herd size.*

Following the lines of the benefits of robotic “milking crews” are testimonies from Richard Waybright, President of Mason Dixon Farms in Gettysburg, Pennsylvania, and from Sammy Jones of Star City, Indiana, respectively:

*Robots don't get sick, need health insurance, have birthdays, get drunk, and they always show up. – Waybright (McGee, 2006)*

*I can manage cows better than I can manage people....My people are robots. -- Jones (AP, 2003).*

On the Dutch front, Albert, Yoka, and Chris Vandenberg offered the following testimonial to their recently purchased Lely automatic [robotic] milking system:

*It is about 2 years that we milk with a Lely Robotic milking system. It has given us a lot of freedom that we did not have before. A visit or a game at 6p.m. was out of the question before. The system has worked well for us, with very few problems. We are satisfied with the product and the service. (Testimonials, n.d.)*

The testimonies could continue, but the point stands that American and Dutch farmers enjoy the benefits of their AMS. This would seem to suggest that the innovation of AMS should, in a sense, “sell itself”. While this may appear the case in The Netherlands, whose small dairy farmers are rapidly adopting AMS technology; this is not at all the case in the United States, wherein only a handful of farmers are utilizing the technology to date. Thus it would stand to reason that, if we know the advantages of AMS to be abundant, yet the rate of adoption among similarly struggling small dairy farms in two nations is extremely different, then this difference cannot solely be the result of the attributes of the AMS innovation itself. That is to say, there is another variable affecting the rate of AMS adoption in The Netherlands and the United States that we must consider.

## **THE SOCIO-ECONOMIC CONTEXT OF MILKING SYSTEMS**

Land is scarce in The Netherlands, especially when compared to the United States (see Table 3). This should come as no surprise when considering that The Netherlands has a land area less than 0.5% that of the United States', but 5.5% of its population. Perhaps a better comparison yet would be to say that the population density in the United States is 84 persons per square mile. In The Netherlands, the population density is 1,252 persons per square mile.

Furthermore, dairy farming is the leading agricultural activity in The Netherlands, already taking up half of the country's available farmland (The Netherlands, 2005; Bernick, 2002). Dairy farms number 25,000 in The Netherlands, for a total cow number of 1,504,097. Although the United States has 97,560 dairy farms with 9,210,000 cows, the country's land area

is so great that this results in a cow-per-square-mile ratio of just 2.5:1. In the Netherlands, there are 94 cows per square mile.

The Dutch government has realized this land shortage, and has even taken measures to preserve its precious land resources. The government is actually encouraging its own farmers wishing to expand to relocate to another country (Bernick 2002). The European Union is also doing its part to help discourage expansion in The Netherlands: it has developed regulations intending to reduce the animal population by 25% over the next decade (Eastridge & Steel, Eds., n.d.).

## Labor

**Table 4: Labor resources of the United States and The Netherlands**

	United States	The Netherlands
<b>Total Labor Force</b>	149.3 million <sup>2</sup>	7.53 million <sup>2</sup>
<b>Labor Force employed in Agriculture</b>	0.7% <sup>2</sup> ; 1,045,100	2.1% <sup>2</sup> ; 158,130
<b>Average Farm Worker Wage Rate</b>	\$9.95/hour <sup>3</sup>	\$23.32/hour <sup>4</sup>
<b>IMD Score</b>	6.6 <sup>1</sup>	3.7 <sup>1</sup>
<b>% Native Males Employed</b>	73.5 <sup>1</sup>	83.1 <sup>1</sup>
<b>% Foreign-born Males Employed</b>	79.2 <sup>1</sup>	68.4 <sup>1</sup>

<sup>1</sup>(Orrenius and Solomon, 2006); <sup>2</sup>(The World Factbook, 2006); <sup>3</sup>(Farm Labor, 2006)

<sup>4</sup>(CBS, 2005)

The Netherlands, having a total population much less than the United States, will obviously have less of a labor pool from which to hire for agricultural purposes (see Table 4 above). According to a November, 2006 report from the Central Bureau of Statistics Netherlands, the number of Dutch emigrants is steadily growing. In the first nine months of the year, nearly 100,000 people (including dairy farmers) left the Netherlands to settle elsewhere. In The Netherlands, emigrants have actually outnumbered immigrants for three straight years. Solely due to this migration, the population of the country was reduced over the past three years by 75,000 people. Meanwhile, the United States is getting great help from immigrant workers. This is, in part, because the United States IMD Score is much higher than that of The Netherlands. The IMD Score (International Institute for Management Development) ranks countries based on a scale of 0 to 10, with 0 for the nations with the most regulations causing the greatest hindrance to business, and 10 for the nations with regulations causing the least hindrance to business (Orrenius & Solomon, 2006). From the chart, we see that the United States imposes significantly less of a hindrance upon its business (IMD = 6.6) than does The Netherlands (IMD = 3.7). According to Orrenius and Solomon, there is a strong correlation between high IMD scores and the ease of immigrants to enter the labor market (2006).

The Netherlands seems to be at two disadvantages compared to the United States. The first disadvantage is its lack of land resources, and the subsequent expense of this resource. Dutch farmers are somewhat forced by these resources to maintain the size of their operations, if not reduce or relocate their operations altogether. American farmers, on the other hand, have the relative ability to “spread their elbows”.

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Small farmers in The Netherlands are also at a disadvantage when it comes to labor resources. Labor is scarce in the country, where more emigrants are leaving every year than immigrants are coming in. This labor force, as a result, commands a high pay rate compared to that of the United States, where immigrant labor has become an abundant resource.

## **CULTURE: A COMPARISON OF WORK CENTRALITY**

Americans love to work. Or at least, those were the general results of a cross-national comparison study of work attitudes prepared by Tom W. Smith of the National Opinion Research Center/University of Chicago in December, 2000.

Smith surveyed participants across all age brackets and labor force status in 8 countries worldwide, including the United States and The Netherlands. Among the characteristics studied by Smith were:

- Preferred Reallocation of Time by Labor Force Status
- Attitudes Toward Meaning of Work by Age
- Importance of Various Aspects of a Job
- Preferred Working Situation
- Work Effort
- Time/Money Trade-Off

Regarding the first characteristic studied, Preferred Reallocation of Time by Labor Force Status, Smith found that greater percentages of the American population would prefer to spend more time in a paid job than would their Dutch counterparts. The difference in these percentages is especially large for full-time American employees (18.9%) versus full-time Dutch employees (9.8%). This data seems to indicate that Americans who are already full-time employees are more satisfied with their full-time jobs than are Dutch full-time employees.

Americans of all ages overwhelmingly agree that they would enjoy having a paying job even if they did not need the money. Of the Dutch surveyed, the response was not as strong, indicating that they may be more reluctant than Americans to work jobs from which they do not need the money.

Americans generally prefer full-time employment over part-time jobs, jobs less than 10 hours per week, or jobs without pay. In comparison, the Dutch appear to prefer part-time jobs and jobs less than 10 hours per week. This may be explained by a desire for greater personal free time. In addition to this, 39.2% of Americans in part-time jobs would prefer to be in full-time jobs compared to 28.8% of Dutch in the same situation. On the other hand, 60.1% of part-time Dutch report that they would prefer to remain in part-time positions, versus 50.9% of Americans in this situation. Furthermore, a greater percentage of Dutch part-time workers would prefer to work a job of less than 10 hours a week than would their American counterparts. It would seem from these statistics that Americans are apt to want to spend their time in full-time employment, whereas the Dutch are satisfied working part-time or low-hour jobs.

There is a significant difference between American and Dutch work efforts. The pattern is the same for all the age groups of each nationality. A greater percentage of Dutch than Americans agree that they “Work hard, but not so as to interfere with the rest of my life.” In fact, the Dutch overwhelmingly agree to this statement in all of the age groups with data: Under 30 age group (70.4% vs. USA 39.1%), 30-39 age group (59.8% vs. USA 41.2%), 40-49 age

group (61.4% vs. USA 33.2%), and 50-64 age group (64.4% vs. USA 32.3%). The Americans, in contrast, report that they “Make a point of doing the best work they can, even if it sometimes interferes with the rest of their lives.” The percentage differences are just as impressive: Under 30 group (45.6% vs. NL 16.5%), 30-39 group (47.8% vs. NL 30.6%), 40-49 group (59.1% vs. NL 33.2%), and 50-64 group (62.7% vs. NL 30.5%). The Dutch are generally unwilling to let their work interfere with their personal lives, whereas Americans generally value their best work over personal time.

The following conclusions may be drawn from the data collected:

- More Americans prefer to spend their time in a paid position than do the Dutch.
- The Dutch are more likely to value flexible working hours in a job than are Americans.
- Americans are more likely to work jobs from which they do not need the money than are the Dutch.
- The Dutch are less inclined to work their personal schedules around a job than are Americans.
- Americans want to spend their time in full-time employment, whereas the Dutch are satisfied working part-time or low-hour jobs.
- The Dutch are unwilling to let their work interfere with their personal lives; Americans will allow their work to interfere with their personal lives.
- Americans will give up their time in order to earn money. The Dutch value their time over money.

American attitudes toward work appear to be very different from the Dutch attitudes toward work. Americans generally want to work, and they want to work a lot, even if it means giving up personal time. The Dutch will work, but are more reluctant to work so much, valuing their personal time instead. As Dutch dairy farmer Govert deGier says, “You need to have some fun in life, otherwise, where’s the challenge? (Kryzanowski, 2004)”

The cultural dimension of work centrality, combined with the economic availability of resources such as land and labor, provide a socio-economic context in which each country’s small dairy farmers can answer the challenge of survival. Land is scarce and expensive in The Netherlands, whereas land is relatively abundant and inexpensive in the United States. In addition to this, emigrants are leaving The Netherlands faster than immigrants are coming in, thereby reducing the labor force from which dairy farms may hire. In the United States, immigrants are offering a strong boost to the labor force. Finally, as we have just seen, Americans are more likely to devote more of their time to their jobs, whereas the Dutch are less likely to devote more of their time to their jobs.

### **AMERICAN SOLUTION: EXPANSION**

“‘Two hundred cows,’ said Dale [Williams, an Idaho farmer], amazed at the growth. ‘I said I’d never milk more than 100 cows years ago, but here we are’ (Loftus, 2000).”

While not an easy decision for the individual American small dairy farmer to make, it is a relatively straightforward decision. In the American game of life, if the competition gets faster, you get faster. If they get stronger, you get stronger. And if they get larger, you get larger. Or, as my father explained to my two younger sisters and me during our triple-fold expansion in

2000, “Gotta get big-Big-BIG!” The American small dairy farmer’s remedy for competition from large dairies is to expand.

We have seen that Americans have the land, the labor, and the attitude to put in the hard work and long hours required by expanding. And indeed, small dairy farmers are putting these resources to good use. Dairy farm is increasing in all regions of the US (Smith et al, 1997). According to a Connecticut dairy farm survey in 1999, 42% of farmers planned on expanding in the next 3-5 years (Foltz, 1999). In Ohio, Ohio State University agricultural economists believe dairy farmers should increase their herds by approximately 60% each decade to maintain their standard of living (AG Answers, 1995). In the Michigan/Wisconsin region, studied dairy farms increased in herd size from an average of 296 to 569 cows between 1988 and 1998 (Hadley et al, 2002). The number of herds with fewer than 100 cows declined in number by as much as 60% between 1987-1997 in the upper Midwest states, while growth in number of dairy herds with 500 or more cows grew by 350% (1978 to 1987) followed by 500% (1987-1997) in Wisconsin and 125% followed by 333%, respectively, in Michigan (Hadley et al, 2002).

Table 5 below takes the focus off of the percentages for a second in favor of the actual number of dairy farms throughout the United States from 1978-1997.

**Table 5: Number of dairy farms by herd size, 1978-1997**

Year	Herd Size					Total
	<50	50-99	100-199	200-499	500+	
1978	149,484	48,144	12,156	3,334	843	213,961
1987	89,740	48,315	14,837	4,253	1,267	158,412
1997	43,348	33,472	12,602	4,880	2,244	96,546

Source: Hadley et al, 2002

This table nicely illustrates the transition from smaller to larger dairy farms over the 20-year span. In 1978, dairy farms of less than 50 cows clearly dominated the American industry compared to the number of farms in higher herd size categories. However, the gap was closing by 1987, when the number of under-50-cow dairies was nearly cut in half while the numbers in all of the higher herd size categories increased. By 1997, not only had the under-50-cow dairies been cut in half *again*, but the next two higher categories had decreased as well. Meanwhile, the number of 200- to 499-cow herds were still increasing (reflecting the trend to larger dairy herds), and the number of over 500-cow herds had doubled. According to Hadley et al, the growth rate of the average dairy farm has accelerated in recent years through a decline in the number of small farms by exit or expansion (2002).

Farmers are making use of their land and labor resources. Table 6 below illustrates that these factors are being used at greater amounts after expansion than before expansion. With a 92% increase in cows came a 9% increase in land, a 36% increase in managers, a 7% increase in total dairy employees, and a 53% increase in total employees.

**Table 6: Average farm characteristics (18 farms)**

	Preexpansion	Postexpansion	Percent Change
<b>Herd size (cows)</b>	296	569	92
<b>Crop acreage</b>	978	1069	9

<b>Acres/cow</b>	3.3	1.8	-45
<b>Number of managers</b>	2.5	3.4	36
<b>Total dairy employees</b>	5.1	8.5	7
<b>Total employees</b>	7.0	10.7	53

Source: Hadley et al, 2002

According to Ron Hook, an Iowa State University Extension Farm Management Specialist, a critical success factor for dairy expansion is the commitment of time (1998). Farmers must be prepared, he says, to spend time and effort in committee and subcommittee meetings while in the process of expanding their dairy herd. American small dairy farmers are expanding their operations in order to stay competitive in the face of larger dairies. They have the land, they have the labor, and they have the mentality that enables them to do so, as expressed by Iowa farmer Terry Van Maanen:

*Now when we grow, it is more economically driven, but there is also ambition involved. It's what I know, and it's what I want to do, and I want to do the best job I can possibly do to keep our operation successful." (DeYoung, 2005)*

## **DUTCH SOLUTION: AMS TECHNOLOGY**

For Dutch small dairy farmers, keeping up with the competition isn't as "straightforward" as expanding their own operations. They are limited by land and labor resources, and to at least some extent, their own attitudes toward work. Therefore, the Dutch created and are actively adopting an alternative to expansion by way of technology. The Dutch have revolutionized their traditional milking systems with the Automated Milking System (AMS).

Dutch research institutes began exploring the possibility of automating the milking process in the mid-1970s (Meijering et al, 2002). The thought was that automation would increase output per man-hour, thus reducing costs and increasing profits. The first step was to create an electronic cow identification system. Then, automation was applied to concentrate feeders. By the early 1980s, automation had expanded to milk yield recording equipment and sensors to detect udder health problems (Meijering et al, 2002). Now an automatic teatcup attachment system was needed. In 1985, Rossing et al concluded that it was possible to milk a cow in a concentrate feeder, and research began throughout Europe to develop such a teatcup attachment system (Meijering et al, 2002).

The first studies to be performed, the first industrial suppliers to offer automated milking systems, and the first farms to implement AMS were all Dutch (Meijering et al, 2002). This implementation occurred in 1992, but was slow to take off for the first few years. However, by 1998, AMS had become accepted technology by many dairy farmers in The Netherlands, and utilization of the systems soared. In fact, by 1998, 25% of Dutch farmers building new barns were installing AMS (Schukken et al, 1999). Likewise, 25% of all new milking systems sold into existing Dutch barns were AMS (Schukken et al, 1999).

As of 1999, approximately 400 systems were installed in Western Europe. Of those, more than 200 were in The Netherlands, over 100 were in Germany, more than 50 were in Denmark, and over 25 were located in the collective region of France/Belgium/United Kingdom (Schukken et al, 1999).

The revolution is spreading overseas. At the end of 2001, over 1,100 farms worldwide milked their cows automatically (Meijering et al, 2002). As of 2003, approximately 1,200 dairy



farms worldwide were milking their cows automatically (Geleynse). Northwestern Europe still remains the hot spot of this AMS activity, with a 90% share of all AMS worldwide (Geleynse, 2003). But The Netherlands, the birthplace of AMS, still has “by far the largest number [of AMS worldwide]” (Geleynse, 2003).

While American farmers seem to be getting by just fine without the widespread adoption of automated milking systems, AMS technology has been the saving grace of Dutch small dairy farmers. Automated milking systems allow these farmers to keep their modest herd sizes yet compete with larger farms via reductions in labor costs and increased profits. In The Netherlands, where land and labor is scarce and expensive, installing an AMS offers an attractive alternative to going out of business. These milking systems also reduce the amount of time and devotion needed by the dairy farmer, thus satisfying the general Dutch desire to work only as much as necessary, instead spending more time enjoying personal activities. More and more, it would appear as if these systems are becoming commonplace – even a necessity – within The Netherlands, whereas expansion is winning out as the survival solution for small dairy farmers within the socio-economic context of the United States.

## CONCLUSIONS

### **1) Both Dutch and American small dairy farmers are struggling for survival in the face of increasing large farms. Options exist of selling out, expanding, or adoption AMS technology.**

The dairy industry is extremely important to both American and Dutch agricultural economies. Both these countries have rich histories in the business, and both are world leaders in the industry. At the heart of the American and Dutch dairy industries are the small family farms. These farms have traditionally been operated on small acreage with small herd sizes, and a collection of milking machines operated by family labor.

Over the years, in both the United States and in The Netherlands, dairy farms grew steadily in size. This widened the gap between large and small farms, and shifted the distribution curve to the right, forcing some of these small farms to find ways to compete (via expansion or technology adoption) or to sell out.

### **2) Rogers proposes that five variables combine to affect the rate of adoption of an innovation, including the perceived attributes of the innovation and the social systems of the area in which the innovation is diffusing.**

The five Perceived Attributes of the innovation include: Relative advantage, Compatibility/Trialability, Complexity, and Observability. The Nature of the Social System – what Rogers defines as including “its norms, degree of network interconnectedness, etc.) is also an important variable in the rate of innovation adoption (1995).

### **3) Although the attributes of AMS are perceived as beneficial by American small dairy farmers, they are not adopting them with the same vigor as are the Dutch.**

As detailed in Table 2 earlier, AMS has the clear advantage over traditional milking systems in all categories. If the farmers of both countries based their decisions to adopt solely on the attributes of the innovation itself, it would stand to reason that both American and Dutch small dairy farmers would be vigorously adopting AMS technology. They are not. Therefore, we must assume that another variable must account for the difference in AMS adoption rate between the United States and The Netherlands.

**4) Dutch and American socio-economic conditions are different. The Dutch have less access to labor and land, and a more relaxed attitude toward work. Americans have more access to labor and land, and a more aggressive attitude toward work. As a result, Americans are finding expansion to be their survival solution of choice, while the Dutch are finding AMS adoption more suitable to their national socio-economic context.**

American and Dutch small dairy farmers have approached their common challenges of survival differently. American farmers are able to expand, generally unbound by economic and cultural factors. However, Dutch small farmers cannot operate under the same principles as their American counterparts; they are bound by their socio-economic contexts, and cannot expand to stay competitive with large dairy farms.

Technology is the Dutch solution to staying competitive in the dairy industry. As of 1992, dairy farming in The Netherlands took a dramatic turn in dairy production with the implementation of its first automated milking system. These new machines took over what were previously the manual tasks of getting the cows in place to be milked, preparing the cows to be milked, and actually milking them. Automation cut the cost of milk production by reducing time and labor. In this way, the small Dutch dairy farm is able to survive financially against its larger counterparts.

The American dairy farm, on the other hand, has opted toward expansion rather than adopting the new AMS technology. Even though Americans perceive the innovation itself to possess favorable attributes, the socio-economic context in which they operate hinder a trend toward high adoption rates. In The Netherlands, the socio-economic context in which small dairy farmers operate facilitates the trend toward high adoption rates of AMS technology.

**5) If this is true, then the case of AMS rate of adoption in The Netherlands versus the United States is consistent with E. M. Rogers' model of innovation adoption.**

Conclusively Dutch and American farmers alike perceive AMS as a great benefit in itself. HOWEVER, this is not enough. According to Rogers' model of rate of adoption of innovations, the higher rate of adoption will be a result of a combination of more than one of his five variables. The Netherlands has that combination in Perceived Attributes *and* its Social System; the United States has only the Perceived Attributes, and not its Social System. In other words, The Netherlands exhibits 6 out of 6 variables for a high rate of AMS adoption, and is indeed experiencing a high rate of AMS adoption, whereas the United States exhibits 5 out of 6 variables, and is experiencing a low rate of adoption. Not only does this suggest the importance of the nature of social systems in contributing to a high rate of innovation adoption, but the AMS case study stays consistent with Rogers' theory.

#### **Implications to business:**

The most important lesson to be learned is that good innovations are not always the market winners across the board. A good innovation may not be compatible with the socio-economic systems of various nations in which that innovation is being marketed. We see this in the study of Automated Milking Systems among small dairy farmers in The Netherlands and the United States. Although the dairy farmers of each of these countries have the common need to find a solution for survival, they operate in entirely different socio-economic systems. "The things that they apply over there are not necessarily working over here," stated one farmer in regards to AMS adoption in The Netherlands versus the United States (Kryzanowski, 2004).

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Indeed, we need to understand the impact of these systems in order to succeed with rapid adoption of our innovations.

### **Limitations**

The first limitation of this paper is that it only represents one technological application within the dairy industry. Case studies of additional innovations (such as concentrate feeders and herd observation systems) was needed in order to offer a more “robust” consistency with Rogers’ model of adoption rates of innovations.

The second limitation of this paper is that the statistics found were not as complete for The Netherlands as they were for The United States. These statistics included herd size, production, and cow inventory. More data would have been needed to generate a fairer comparison between the two countries’ dairy industries.

This paper did not take into account other factors that may (or may not) influence the rate of adoption of AMS in the United States and The Netherlands. A prominent factor is politics, which would include such things as regulations and quotas.

A further limitation was that the data in the economic-labor section was largely for the general populations of each country, and not specifically for the countries’ dairy producing industries. A better understanding of the affect of labor on the implementation of AMS could have been achieved had the reader been able to assign labor characteristics to dairy industries.

The culture discussion in the paper was based on only one cultural study, and this one study was not specific to dairy farmers. Studies on work attitudes of American and Dutch dairy farmers – or studies on other cultural characteristics such as uncertainty avoidance – could have been incorporated into the paper for a stronger argument.

Yet another limitation of this paper is that quantitative results were not addressed in order to illustrate the success (or failure) of American small dairy farms expanding, and Dutch farms adopting AMS. Testimonials were used to provide qualitative results of the success of AMS, but were greatly limited to American testimonials only.

Finally, much of this paper was guided by personal experience, the writer having been raised on a small dairy farm which recently underwent expansion. Bias is therefore a factor swaying the paper, as is having had just one first-hand experience with the subject matter.

### **Suggestions for Future Research**

The following five suggestions for future research will be proposed as they parallel the limitations previously stated:

The first suggestion is to explore case studies of agricultural innovations other than AMS. A greater variety of innovation adoption rate studies within the agricultural context will result in a more robust study.

Secondly, the political factors (including legal regulations and quotas) affecting the adoption of AMS in the United States versus in The Netherlands.

A third suggestion is to research the dairy-specific labor force demographics of the United States and The Netherlands.

Fourthly, a cultural study could be conducted comparing the work attitudes of American and Dutch dairy farmers.

Finally, an operational study could be done to compare the efficiency and productivity of American small dairy farms post-expansion, and the Dutch small dairy farms post-AMS, to the productivity and efficiency of the larger farms in each of their respective countries.

I hope that in completing this study, I have not only successfully linked the dairy industry to E. M. Rogers' model for the variables affecting adoption rates of innovations, but that I have also successfully indicated the consistency of the case study with Rogers' model. Although the small dairy farmers of The Netherlands and the United States have a need for survival in an expanding world, automated milking systems has not appeared as the blanket solution. While they have proved successful in The Netherlands with a high rate of adoption, they have not had that same success in the United States. This variation is not due to the perceived attributes of the innovation itself; on that contrary, Dutch and American farmers perceive automated milking systems as being highly beneficial to their operations. It is Rogers' variable of the Nature of Social Systems – and in this case study the socio-economic systems of The Netherlands and the United States – that ultimately account for the difference in adoption rates.

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**BEST PRACTICES AND PROCEDURES SEMI-FINALIST –  
OUTSTANDING GRADUATE PROGRAM  
MODEL GRADUATE PROGRAM IN ENTREPRENEURSHIP**

**DESIGNING AN ON-LINE MASTER’S OF SCIENCE IN  
ENTREPRENEURIAL STUDIES PROGRAM THAT  
ENCOURAGES ETHICS, LEADERSHIP, AND  
ACHIEVEMENT IN THE GLOBAL TECHNOLOGICAL  
ENTREPRENEURSHIP FIELD**

**Shawn M. Carraher, Cameron University  
John Courington, Cameron University  
Sylvia Burgess, Cameron University**

Need – The need for the Master’s of Science in Entrepreneurial Studies program at Cameron University was made clear in a report on the future of SouthWest Oklahoma. While the area is above the state average in terms of the percentage of college graduates over the age of 25, it lagged the state in terms of those with graduate degrees. The program is fully on-line as the university has as its focus with the University of Oklahoma system as working with military students from around the world. The state Board of Regents had also had an unpleasant experience with undergraduate entrepreneurship at another state university and therefore they were unlikely to allow a new undergraduate degree to be created. The MS rather than MBA route was chosen as no other university in the state offered an MS in Entrepreneurial Studies and therefore were less likely to challenge it as being a duplication of efforts.

Program description – The MSE program is designed around the Small Business Institute ® model and uses this model as the basis for the course work.. The three core faculty for the program have worked on more than 85 successful new business start-ups with student clients and have over a 90% three-year success rate for new businesses ventures. Two have run multi million dollar businesses in the U.S. and China in which they were co-founders. In 2005 the program was rated in the top 10 in the nation for Limited Curriculum programs by *Entrepreneur*, their SIFE team won \$23,000 in the first annual Governor's Business Plan competition, and one of their projects received a \$1000 prize from the Oklahoma Energy Board. Jointly with the Executive Director's office the program received a \$100,000 grant to study technology transfer in rural locations.

**Master of Science in Entrepreneurial Studies**

The Master of Science in Entrepreneurial Studies consists of 33 semester hours of graduate credit in five parts: a core of 12 hours, specialization classes making up 12 hours, 3 hours of human / organizational behavior, 3 hours of elective credit, and a capstone class. Students will have their choice of three options for specialization: Global Entrepreneurship, General

Entrepreneurship, or Technological Entrepreneurship. The program may be completed entirely on-line or in a combination of live courses and on-line courses.

### **Part I: Core Entrepreneurship (12 hours)**

ENT 5103	Entrepreneurial Studies
ENT 5203	New Business Ventures
ENT 5303	Technological Entrepreneurship
ENT 5403	Global Entrepreneurship

### **Part II: Concentration (12 hours)**

Students must chose one of three options: Global, General, or Technological Entrepreneurship.

#### **1. Global Entrepreneurship**

The Global Entrepreneurship track is intended for students who want to start new businesses that will conduct commerce across national borders. The electives of study blend theory with real global practical experiences in businesses and provide an opportunity for students to develop and execute their own business proposals.

MGMT 5803	Global Policy & Strategy
MKTG 5523	International Marketing
BUS 5223	International Business
ECON 5933	Issues in Global Economics

#### **2. General Entrepreneurship**

The General Entrepreneurship track is designed for great flexibility to allow students to specialize in areas within or outside of business and for individuals who desire to have a broad education in Entrepreneurship and Business.

BUS 5983	Applied Business Strategy
MKTG 5513	Contemporary Marketing Problems
BUS 5963	Organizational Behavior
ECON 5313	Managerial Economics

#### **3. Technological Entrepreneurship**

The rapid growth of the Internet and Internet technologies has generated much interest in electronic commerce. The growth of electronic commerce has innovated how we think about commerce and evolved the business opportunities for entrepreneurs. The Technology track uses electronic-related methodologies to exchange information and perform transactions. Therefore, the goal of this track is to expose students to technologies and how it affects the entrepreneur as well as technologies' implications on the future of business.

MGMT 5813	Strategic Management in Electronic Commerce
MGMT 5833	E-commerce Ventures & Development
MGMT 5853	Management Information Systems



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MGMT 5873 Technology Transfer

**Part III: Human / Organizational Development (3 hours)**

MGMT 5443 - Current Issues in Organizational Design *or*

BUS 5203 - Current Issues in Human Resource Management

**Part IV: Elective (3 hours)**

Students may choose 3 hours of approved graduate credit.

**Part V: Capstone Experience (3 hours)**

ENT 5903 - Applied Entrepreneurial Case Studies

The graduate certificate program in Entrepreneurial Studies includes 4 classes – Entrepreneurial Studies, New Business Ventures, Global Entrepreneurship, and Technological Entrepreneurship. In these courses the students work on SBI cases, business plans, feasibility studies, and empirical research papers. The empirical research papers are all designed for academic presentation and publication while the Business Plans are designed for publication, competition, and/or actual new business start-up.

*The Board of Advisors for the Entrepreneurial Studies include the following: M. Ronald Buckley, University of Oklahoma; Frank Hoy, University of Texas, El Paso; Samuel Lane, Lane Import; Charles Matthews, University of Cincinnati; John Parnell, University of North Carolina – Pembroke; George Puia, Saginaw Valley State University; Terri Scandura, University of Miami; Sherry Sullivan, Bowling Green State University; Howard Van Auken, Iowa State University; Dianne Welsh, University of Tampa.*

Contribution - The program is currently two years old and we have had 45 academic presentations over the course of the program, 11 journal article publications, 10 papers under review, and have 100% of papers submitted to journals receiving revise and resubmit requests. We have also had 12 successful new business start-ups out of 12 attempts, and have four of our students courted by major research universities for their doctoral programs. We have had students completing work in 16 states and nine countries on five continents. We have also had over 40 SBI projects completed and are the major provider of on-line SBI projects for SBI.

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## **BEST PRACTICES AND PROCEDURES: PROMISING PRACTICE**

### **ETHICAL LEADERSHIP IN ENTREPRENEURSHIP EDUCATION: STRATEGICALLY TEACHING STUDENTS TO PUBLISH**

**Shawn M. Carraher, Cameron University**  
**Terrence Paridon, Cameron University**  
**John Courington, Cameron University**  
**Sylvia Burgess, Cameron University**

Need – This program is designed to meet the needs of the profession, university, and educational programs in terms of 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? At Cameron University we have begun a formal program where we seek to have our undergraduate and graduate students in entrepreneurship – and in all other areas of business – involved in research and publishing. 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. In Oct. 2006 the Vice President of Academic Affairs, Dr. John McArthur challenged the Cameron University School of Business faculty to coauthor papers with our graduate and undergraduate students. Three business professors – one in entrepreneurship, one in marketing, and one in finance – accepted his challenge are currently involved in educating students about research and publishing. In all three cases the professors use similar methods of having the students work across two or more courses in order to allow enough time for a project to be completed. The process begins with the selection of an instrument to validate and a talk with the human subjects committee (two of the three faculty members are on the human subjects committee). Data is then collected, a review of the literature, and data entry are all completed during the first course. In the second course the data is analyzed, discussion is written, and future research is suggested. The papers are then submitted for conference review and then to a journal.

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. Nine student papers have been accepted for journal publication - with eight of them being by graduate students and two by undergraduate students - - bringing us to a grand total of 37 academic presentations by our students and 10 journal publications [4 in 2006 and 6 in 2007 with 3 more Revise and Resubmit requests]. Ten student papers are currently under consider for journal publication with all 10 of them being with Social Science Citation Indexed journals. We have also had two papers accepted for presentation at Oxford University – Pembroke College and St. Hughes College which have been motivating for the students as three of the four student coauthors are seeking to enter doctoral programs and become professors themselves. Two of the four were unemployed when they entered the program and the third had entered the program with the expectation that he would open a worm farm. Since the acceptance of this session the number of presentations has increased to 45 and six of the papers under review with journals have been invited to be revised and resubmitted, and four more articles have been accepted for publication bringing us to a total of 14 peer reviewed articles.

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## **BEST PRACTICES AND PROCEDURES: PROMISING PRACTICE**

### **CAMERON UNIVERSITY LEADERS AND ENTREPRENEURS: DEVELOPING THE NEXT GENERATION OF ENTREPRENEURS AND STRATEGIC LEADERS THROUGH SIFE**

**Sylvia Burgess, Cameron University**  
**Cynthia A. Johnson, Cameron University**  
**Shawn M. Carraher, Cameron University**

Need – How do Primary and Secondary students learn about Entrepreneurship in an interesting and meaningful manner?

Program description - C.U.L.E. is the acronym for Cameron University Leaders and Entrepreneurs. The SIFE team at Cameron University developed the concept of a one day camp to teach elementary and secondary students the concepts of entrepreneurship and ethical leadership. The camps were organized to provide competitive opportunities for youth to elect and develop leadership within a small group, brainstorm to “discover” new product ideas, develop business plans and marketing plans for the new products, create marketing “brands” for the products, write and tape record short TV commercials, and present formal summaries of their products. Members of SIFE served as judges for the events. Trophies and medals were awarded to top performers at the end of each ceremony. At the final C.U.L.E. Camp, scholarships were awarded to two participating seniors.

Contribution - The first “C.U.L.E. Camp” was held at Lawton Christian School in January 2004. One hundred forty three junior high and high school students participated. The second and third C.U.L.E. Camps were held in February 2004. The second served 186 elementary school students in the Lawton area, and the third served 46 secondary students. In the Fall of 2004 195 students participated and in the Spring of 2005 55 students participated. In the Fall of 2005 93 students participated while in the Spring of 2006 48 students participated. The program has continued to grow and develop with the next CULE camp scheduled for the week before the annual SBI conference. The university President and the parents of local students have requested the programs continuation and provided over \$10,000 in order to fund it. In the next CULE camp the students are to participate in working with SBI clients from around the country who have contacted SBI for help as a result of Stephanie Bardwell’s article in the Costco magazine.

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## **BEST PRACTICES AND PROCEDURES: PROMISING PRACTICE**

### **APPLIED BUSINESS PLANS IN PRIMARY AND SECONDARY SCHOOLS IN THE BALTICS: HOW TO TEACH THE BASICS OF ETHICAL ENTREPRENEURSHIP AND STRATEGIC LEADERSHIP THROUGH SIFE**

**Shawn M. Carraher, Cameron University  
Jacqueline Williams, Cameron University**

Need – How do Primary and Secondary students learn about businesses that can earn a profit – especially in formally socialistic countries?

Program description – In this Student's In Free Enterprise project students in Latvia were taught about the basics of strategic gap analysis and how to identify their own capabilities with what they had available to them. There was 3 hours of lecturing and discussion about how to identify market niches and 2 hours – including an experiential exercise – on how to determine market pricing. The student teams were then each given 20 Lats (approximately \$30) and two time periods in which to see how much money they could earn – 30 days and 90 days. They were told that they would have to return the 20 Lats once the exercise was over but that they could keep any profits.

Contribution - Separate competitions were held between the elementary and secondary school students. Each team consisted of 3 students and it was suggested that they should seek to be creative in coming up with ways to increase their money. Once it was explained to the students that it was required that they not break the law in their money making ventures (no bootleg CD's or DVD's) the students came up with a wide variety of ideas. They included ideas such as offering to collect and market locally produced eggs and dairy products, to selling popcorn outside of a local movie theater, to growing plants from seeds and selling the plants to local gardeners at the local open air market place, to importing dresses from Germany, to panhandling, to designing websites. All together 20 teams competed with 24 different ideas. The least money was earned through panhandling (roughly 3 cents was earned) and the most was earned through the design of websites for the 90 day time period and importing dresses from Germany in the 30 day time period. The dresses were imported for free with a friend who was importing cars from Germany. The students learned that used intellectual capital and networking were the keys to earning a good return on investments.

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## **BEST PRACTICES AND PROCEDURES: PROMISING PRACTICE**

### **A GRADUATE CERTIFICATE IN ENTREPRENEURIAL STUDIES: STRATEGIC RECRUITMENT OF ENTREPRENEURS**

**Shawn M. Carraher, Cameron University**

Need – The need for the Graduate Certificate in Entrepreneurial Studies at Cameron University was three fold. First, the state of Oklahoma had never before offered a graduate certificate so if the university wanted to offer other graduate certificates it needed to pioneer the process with something that was likely to pass the University of Oklahoma Board of Regents and the State Board of Regents. The second need for it was to provide business people with the opportunity to learn the basics of business and entrepreneurship without working on an entire Master's degree program. The third need for the program was to be to educate business people as to why they might want to earn an Master's of Science in Entrepreneurial Studies or an MBA.

Program description – The graduate certificate program in Entrepreneurial Studies includes 4 classes – Entrepreneurial Studies, New Business Ventures, Global Entrepreneurship, and Technological Entrepreneurship. In these courses the students work on SBI cases, business plans, feasibility studies, and empirical research papers. The empirical research papers are all designed for academic presentation and publication while the Business Plans are designed for publication, competition, and/or actual new business start-up.

Contribution - The program is currently two years old and we have had several students earn the graduate certificate. Thus far all of the participants have chosen to continue their educations. One student has decided that she is planning to earn both MSE and MBA degrees before going to the University of Texas – Dallas for their doctoral program in International Business. Within the MSE program she has chosen to specialize in Global Entrepreneurship and she previously worked internationally. Other students have transitioned in to the MSE program. We have had 12 new business start-ups with a 100% success rate.

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## **BEST PRACTICES AND PROCEDURES: PROMISING PRACTICE AWARD**

### **MENTORING ACROSS BORDERS: STRETCHING THE SBI CONSULTING MODELS ACROSS NATIONAL BORDERS IN ORDER TO DEVELOP NASCENT ENTREPRENEURS**

**Shawn M. Carraher, Cameron University**

Need – The garbage can model of organizational strategy is at work in the identification of this need. One of the requirements for the Master’s of Science program at Cameron University is that students work as consulting mentors for nascent entrepreneurs seeking to open businesses. Working with international missions organizations in Eastern Europe, Africa, Asia, and Latin America it became apparent that local businesses – and even local ministers – needed assistance on how to start and run successful businesses that could support them and their families. Initially the MSE students were to mentor incubator clients however as the local incubator turned in to a military office building lacking any incubating clients it was necessary to seek clients outside the normal bounds.

Program description – this program allows experiences graduate students in the Master’s of Science in Entrepreneurial Studies program to provide mentoring services to nascent entrepreneurs in Eastern Europe. The students work with the clients to educate them about strategic gap analysis, the Five Forces Model, SWOT analyses, and feasibility analyses. They then work with them on the development of a personal career development plan and a business plan.

Contribution - Thus far we have worked with clients in Bulgaria, Estonia, Latvia, Poland, and Ukraine. All of the clients have been successful in opening their businesses and one has already successfully sold his new business start-up. The students also better realize that they have increased in knowledge and that this knowledge has great utility in the business world. At a previous university several students used these experiences to become full time consultants.

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## **BEST PRACTICES AND PROCEDURES: PROMISING PRACTICE AWARD**

### **ON-LINE SBI TEAMS: HOW TO STRETCH THE SBI MODEL TO ALLOW STUDENTS TO CONSULT WITH CLIENTS ACROSS GREAT DISTANCES**

**Shawn M. Carraher, Cameron University**

Need – The need for SBI consulting teams to be able to work for clients at great distance from their own locations has existed since the first SBI project was offered on-line. The CostCo article about the Small Business Institute program has increased this need greatly.

Program description – The SBI manual calls for several face to face meetings between student teams and the client. In the past I have had student teams travel over a thousand miles in order to work with a client – however this is increasingly becoming unneeded thanks to the quality of communications technology currently available. We have experimented with a variety of means of communication but have found that a combination of conference calls, e-mails, and instant messaging can work as well as having the team travel to see the client. It takes some time for the student teams and clients to become used to the process although in a program where the typical student does 5 SBI projects over the course of their program the learning curve seems to be about one project. The first project is tough but the second and subsequent projects become much easier for the student groups. The learning curves have not been as steep for the clients as they have typically “reached out” using technology in order to contact our SBI program.

**Contribution - We have had over 40 SBI projects completed – with over half of them being for clients who are not considered local. We have become the major provider of on-line SBI projects for SBI. We are also finding that there is great value in having students involved in more than 1 SBI project over the course of their program of study. Ideally students would start with a project during their first semester and remain as active consultants for all four years if an undergraduate or 2 years if a graduate student.**

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**BEST PRACTICES SUBMISSION FOR THE 2008 SBI CONFERENCE:  
SEMI-FINALIST**

**A NEW KIND OF COURSE:  
ENT420: STUDENT VENTURE EXPERIENCE (SVE)**

RADHA CHAGANTI, RIDER UNIVERSITY

Rider's Entrepreneurial Studies Program launched a unique and brand new course in Spring 2007, titled: ENT 420: Student Venture Experience, with the objective of helping "business students discover and nurture their entrepreneurial potential and enhance their entrepreneurial spirit." This course provides students with *experience in the process of actually starting and running a small business venture under the supervision and guidance of Entrepreneurship faculty, and business mentors*. This course is an elective course available to Entrepreneurial Studies majors in their senior year. Students get academic course credit for operating, and systematically monitoring, reviewing, reporting on their venture. Prior to taking this course, students are required to complete the course ENT 410: New Venture Planning in which they prepare a full-fledged business plan for the proposed venture.

Course/ Venture requirements:

Students start and operate the venture during the Spring semester, that is, during the January through April period. Students can also use the Student Venture Experience to significantly expand a venture that they are already operating.

Student entrepreneurs can request financial assistance from Rider University in the form of an interest-free loan for up to \$5000.00. Students must fully match the loan amount through their own equity, and must first spend their own funds prior to tapping into the loan. Business plans of student ventures requesting a loan are reviewed by an advisory board made up of faculty, area bankers and/or entrepreneurs. Student entrepreneurs receive funding upon approval. Financial assistance in the form of loan is preferred because it reinforces the need for fiscal responsibility to the budding entrepreneurs (when compared to a grant), and thus encourage them to work to achieve break-even cash flows for their venture.

At the time of enrolling in the course, students sign a disclaimer form stating that Student Venture Experience is a class, and the University, the College of Business Administration, and supervising faculty/instructors are not responsible for, nor do they guarantee the venture's outcome. In this form, students acknowledge that their actions and efforts determine the results of the student venture, and that they bear the sole responsibility for all results. Similarly, student

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entrepreneurs receiving a loan sign a promissory note acknowledging their responsibility to repay the loan.

*Review of progress:*

The advising faculty member meets weekly to discuss progress on the venture, and student entrepreneurs report on the operations through bi-weekly blogs, provide monthly updates on financial statements, and finish up with a final review and evaluation of the venture experience, and conclude with a forecast of future plans for the venture. This close supervision and guidance helps regularly monitor venture execution, track how well the plan is being followed, and also give early warning of upcoming problems such as delays, cost overruns, and inadequate cash inflows. The business mentor is a volunteer successful entrepreneur who is matched one to one with the student venture. S/he serve as a sounding board/advisor, providing additional support/knowledge to the student entrepreneur.

The faculty supervisor evaluates and grades venture execution monthly, and at the end of semester provides an overall evaluation of the process and assigns a course grade. Student ventures may continue to operate past the end of the semester if appropriate, but the faculty involvement will terminate at the end of the semester.

Student entrepreneurs receiving the interest-free loan are required to repay 40% of the loan by the end of the Spring semester, and repay the full amount within 12 months thereafter. If the venture fails because of business conditions that, despite the best efforts of the student, can not be overcome, the student can apply for loan forgiveness. The purpose of SVE to help the students get “their feet wet” in a venture and learn from the process. Rider recognizes that some of these ideas will not work out, and the loan forgiveness program will be utilized.

*Student Venture Experience so far:*

SVE has been piloted in the Spring 2007 semester, and two student ventures were operated under this course. Both projects accomplished the objective of providing a hands-on experience in launching and operating a new venture. While one of them was more successful as a business, both student entrepreneurs were enthusiastic regarding the entrepreneurial learning they gained from the SVE course.

Some comments from the two student entrepreneurs follow.

**Student Venture One: Sports networking website**

This was an on-line venture that offered a web site with sports information and social networking opportunities for sports enthusiasts. This venture was in the early stage of operation when the student applied for and received a student loan to significantly redesign the web site, upgrade the features and services offered, and to launch a new marketing effort. User-ship of the web site did increase significantly and in fact after the semester ended, another established sports networking web site acquired the student entrepreneur’s web site and appointed him the marketing executive.

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Below are student's comments on how the SVE course helped:

*My business had already been off the ground at this point so a lot of the startup issues had been dealt with. But what SVE did help is to increase my entrepreneurial spirit. The SVE made me realize that making my business bigger is possible and with a little more hard work and creativity, I can get to where I need to.*

Asked what were the surprises in operating the SVE project, he said he learned:

- 1) *How truly hard it was to reach out to the target market and get traffic to the site*
- 2) *How much competition there really is in this industry (I thought there was basically no competition)*
- 3) *How hard it is to get advertisers for the site*

His advice to future SVE students was that:

*Patience and hard work is a virtue when it comes to sales. You need to pursue your customers and build a solid, trusting relationship with those customers*

### **Student venture two: E-commerce web site to sell cell phone accessories on eBay.**

This venture was started with the help of a SVE loan, and made some progress but with disappointing sales. At the end of the semester, the student set it aside when he graduated and began a promising career in finance area.

Some comments from this student:

Asked how the project helped overall, he said:

*The business plan gave me a head-start on how to address some of the most important issues of the business (operations, marketing, market research). Without the plan, I would not have a set of guidelines to follow. SVE gave me a hands-on experience in learning about what unexpected obstacles would have to be overcome in order to be successful in my particular business.*

Asked what were the negative surprises during the venture operation process, he identified them as:

- *Extreme competition*
- *Higher costs to sell on than expected*
- *Lack of demand*

His advice to future SVE students would be

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*Assume that the conversion rate from projections to sales will be much less than what you expect. Do extra market research to find out the proportion of items listed to those actually sold and use this as a ball-park figure.*

Summary:

This is a truly unique project in that there are few exact parallels to this course at other universities and colleges in U.S.

Its hallmarks are:

- academic credit,
- close faculty supervision,
- integrated business mentoring
- prior planning for the venture [again for academic credit],
- external review of the plan,
- opportunity for receiving assistance as a loan rather than a grant,
- reiterate the need for fiscal responsibility when operating the venture.

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## **BEST PRACTICES AND PROCEDURES NOMINEE:**

### **SBI MENTORING: THE EXPERIENCED SBI DIRECTORS REACH OUT TO INEXPERIENCED SBI DIRECTORS**

**Terrence Paridon, Cameron University**  
**Sherrie Taylor, Texas Woman's University**  
**Ron Cook, Rider University**  
**Shawn Carraher, Cameron University**

Need – The need for Experienced SBI Directors to mentor inexperienced SBI directors has existed for years however the CostCo article has made this especially clear.

Program description – As the program's name implies this program involves Experienced SBI directors offering their services as mentors to SBI directors who are inexperienced in running programs. It is expected that this program shall be done primarily on-line although other avenues are also possible.

Contribution - As SBI is aging we need to pass on the wisdom that has been acquired from SBI directors over the years. We really need to go beyond this and have a formal method – like the Innovation Programs and Practices forums – where wisdom can be brought together and shared among members who have similar interests.

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## PROMISING PRACTICES AND PROCEDURES SEMI-FINALIST

### **Real Estate Venturing Program Florida Entrepreneur & Family Business Center The University of Tampa Outstanding Specialty Entrepreneurship Program**

**Dianne H.B. Welsh, University of Tampa**

#### Executive Summary

a. Name: Real Estate Venturing Program, Florida Entrepreneur & Family Business Center, The University of Tampa

b. Purpose: This program introduces graduate students to real estate principles and the fundamentals of venturing or entrepreneurship in relation to the real estate industry. We define Real Estate Venturing as the process of exploring as an entrepreneur a commercial opportunity that may result in the future creation or acquisition of a real estate business (Welsh, 2006). The four-course sequence is taught from the perspective of an entrepreneur and an investor. The course exposes graduate MBA students to the entrepreneurial opportunities, structures, investment decision-making, & risks that are present in commercial/residential real estate markets. Further, the program presents graduate students with an overview of the real estate investment process: identifying realistic opportunities, how to develop the concept, identifying & mitigating risks, raising capital (debt & equity), & exiting (return on and return of equity).

c. Contact: Dianne H.B. Welsh, Walter Distinguished Chair in Entrepreneurship, Sykes College of Business-Box O, The University of Tampa, 401 W. Kennedy Blvd., Tampa, FL 33606-1490 (813) 257-1760 office phone, (813) 451-8680 cell phone, (813)258-7236 fax, [dwelsh@ut.edu](mailto:dwelsh@ut.edu)

d. Primary Objectives: The primary objective of the program is to expose students to the fundamental skills required to enter the real estate business. This includes exposing the students to the varied career opportunities in real estate, with a particular focus on entrepreneurial opportunities that allow someone to enter the industry with limited capital. This is perhaps the most unique aspect of the program. Unlike programs at most universities, which include the presentation of case studies primarily on larger, well known commercial real estate projects, the UT program emphasizes an approach to real estate as a small, entrepreneurial investor. Given this approach, the courses look at the roles as an owner of a brokerage firm or management firm, as well as the investor/owner/developer of income producing real estate. The cases used for student projects tend to involve smaller properties, which require less capital, and which can be acquired by an individual investor or small group of investors.

Because real estate is such a varied industry, one that requires the full range of competencies presented in an MBA program, it provides an excellent opportunity to provide practical examples of real estate investments and business opportunities that allow the students to apply their competencies. And because the focus is on entrepreneurship, the students are required to assume varied roles in evaluating investment opportunities. Unlike in a large company, where there are specialists to do many tasks, a small investor must out of necessity have fundamental skills in market analysis, financial analysis, construction, property management and leasing. The goal of

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the UT program is to identify those key skills and develop them in our students so that they will be confident in their ability to enter the real estate industry as an entrepreneur.

e. Principal Students and/or Individuals: Graduate students in the MBA Program (for credit) and those working in some aspects of the real estate industry that need to gain further knowledge.

f. Abbreviated Description: The program is taught in a four course sequence that builds knowledge and background: Real Estate Venturing, Real Estate Law, Real Estate Finance, and Real Estate Development. Each course is taught from the perspective of an entrepreneur.

The entrepreneurship and real estate materials provide an integrated approach to guide students as they gain the entrepreneurial knowledge & skills required for new venture real estate creation & growth. This includes identifying their personal and business criteria, the characteristics of successful entrepreneurs and what characteristics they possess and need developed to be a successful real estate entrepreneur, entrepreneurial real estate entry strategies, buying a real estate business, model real estate entrepreneur business characteristics, and the basic principles of writing a real estate business plan and/or a real estate investment project.

g. Unique Features: This unique program combines Entrepreneurship with Real Estate in the same courses versus separate courses. Most programs around the country have one Entrepreneurship course in a Real Estate major, but do not integrate the two into what happens in the real world. The Program answers the call to reflect the state of the Real Estate market-one needs to be an entrepreneur as well as a real estate specialist to be successful. Also, as noted above, the emphasis in the program is on real estate opportunities available to smaller, entrepreneurial investors, not just to large institutional investors in real estate.

h. Sources of Funding: The program is being funded initially with stipends and advertising from the MBA Program. The Florida Entrepreneur & Family Business Center's Advisory Board has an Academic Affairs Committee is working on a proposal for an endowed chair in Real Estate. Additionally, we have held two focus group meetings with Real Estate professionals in the community to evaluate the program and assist with external funding sources.

i. Program Benefits for its Students: As noted in the text for Real Estate Venturing course, the first in the four course sequence, "Real estate constitutes the single largest asset class in the United States . . ." (Ling & Archer, p. 7). Because of this, and since we all own or rent property at some time in our lives, the skill set conveyed in the UT program is valuable in a number of ways.

1. Students acquire fundamental skills that will be useful to them as they grapple with decisions on whether to continue to lease an apartment or purchase a home.

2. If they choose not to enter the real estate profession as an investor, they may still find themselves in the position of a business owner or manager facing the need to acquire or lease space for their business. And even if they opt to work for a large corporation, there are many positions available to service corporate real estate needs, both in those large corporations and in service providers.

3. But the primary benefits involve transferring the ability to evaluate real estate investment opportunities as a means to generate both income and wealth. While real estate is a varied industry, there are a seemingly limitless number of opportunities to invest capital or provide services that allow one to pursue one's entrepreneurial interests. By teaching the fundamental skills needed to succeed in the real estate industry, and by using cases and projects that provide practical examples of both good and poor investment decisions, the program seeks to convey the qualifications needed to successfully enter the real estate industry.

4. In addition to offering an opportunity for our MBA students, we also have the secondary goal of using the program as the basis for offering short courses and in-service training to local real



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estate industry employees and their employers. We believe they will find the offerings useful as they seek to expand their capabilities and advance their careers.

j. Program Outcomes-Short and Long Term: One program outcome from a short term perspective is to broaden the offerings to students in our Entrepreneurship program by exposing them to an industry that has historically afforded excellent opportunities for wealth creation by entrepreneurial investors. Another short-term outcome is the generation of graduates who may choose to fill positions as employees or independent contractors in the real estate industry. There is no question that serving a period of apprenticeship in an established real estate business is a good way to enter the industry and to gain the on the job training that is so helpful in building both confidence and skills.

Perhaps the most hoped for long term outcome is that students with an interest in being entrepreneurs will be attracted to the real estate industry as one in which they can create both income and wealth starting as a small investor, either individually or with others. The real estate industry is full of examples of family businesses that have grown from relatively humble beginnings to become very large enterprises. A perfect example is Donald Trump, who was able to acquire an option on highly valuable properties owned by the bankrupt Penn Central Railroad, in large part because his father had started from scratch, had become one of the largest developers and owners of apartment buildings in New York City, and had generated the wealth that allowed his son to expand the enterprise into new areas.

Another desired long-term outcome is to generate an ongoing relationship with those in the real estate industry in the Tampa Bay area and beyond. We constituted a focus group of industry representatives at the start of the program and will continue to keep them engaged. This relationship provides UT opportunities for its students, but also affords us the ability to respond to the needs of industry by tailoring our program and related short courses to meet industry demands. After all, the industry, as well as our students, are customers who deserve to be heard.

Sequence of Course Outlines and Topics

#### 1.MGT 675 – Real Estate Venturing

This course provides an introduction to real estate concepts, law, finance and the real estate industry. The idea of real estate as an entrepreneurial business is the focus of all course materials. The attributes of an entrepreneur are presented and discussed, with connections shown to how such attributes are crucial to success in real estate.

This is the first course in the real estate concentration, providing a framework for materials covered in the other courses. Lectures include a number of guest speakers with expertise in various aspects of the real estate industry. The legal basis for ownership and interests in real estate are covered, including forms of title, deeds, easements, leases and other rights to real estate or real property. Examples of legal documents are reviewed and discussed. The government's control and influence on real estate is addressed, including land use controls such as zoning, environmental laws, eminent domain and the property tax. Real estate markets, the local nature of those markets, and key metrics in analyzing real estate markets (e.g. absorption, vacancy rate, etc.) are considered. The different types of investment real estate (also known as commercial real estate) are presented, including office, industrial, retail, hotel, and multi-family residential properties.

Basic financial concepts used to evaluate the purchase, sale or lease of real estate are presented. Return on investment is evaluated from the perspectives of an owner as well as a lender. Fundamental concepts of mortgage finance are addressed, including loan underwriting, amortization and returns. The financial concepts of internal rate of return and net present value

are emphasized. Students are expected to master the use of an HP-10BII or comparable financial calculator.

Grading is based on class participation, homework assignments, mid-term and final exams, and a semester project, completed as part of team, which involves underwriting the purchase of a specific property that is actually on the market for sale. The class project involves completing all of the steps necessary to evaluate the potential return on investment from purchasing the property and involves market research, review and abstracting of leases, building a cash flow model including assumed debt and equity requirements and then pitching the potential investment to panel of “equity investors.” The presentation, including both a formal verbal presentation and a detailed written offering package, make use of tools provided in the Kauffman Institute materials, since the students create the equivalent of a business plan for their proposed acquisition. The “equity investors” are local real estate professionals who contribute the cases studied and volunteer their time to help evaluate and critique the students’ work.

## 2. MGT 600 – Real Estate Law

This course provides an introduction to real estate law. The textbook for the course will be *Real Estate Law* by MaryAnn M. Jennings, which generally examines the law of real estate ownership, transfer, and development, as augmented by case studies.

In concert with the general principles addressed by the textbook, special emphasis will be given to Florida real estate issues that affect all residents of Florida, with a review of the following Florida documents:

1. Purchase and Sale Agreement;
2. Lease;
3. Mortgage and Security Agreement;
4. Deeds;
5. Title Insurance Policy;
6. Easement.

The examination and review of the above-listed documents will provide a very practical application of the general principles being discussed in the textbook and will provide useful information for any owner, buyer, seller, tenant, or landlord of Florida real property.

Real estate developers, bankers, and lawyers with practice specialties in the real estate area will be invited as guest lecturers. These guest lecturers will provide real-life stories and experiences and will add texture to the concepts and fundamentals being discussed in the textbook and in the Florida documents.

## 3. FIN 600 – Financial Analysis for Commercial Real Estate with ARGUS

This course extends the financial concepts introduced in MGT 675 and deals with the theory and practice of evaluating commercial real estate. The emphasis is on detailed real estate valuation, cash flow analysis, financing, and partnership structures.

In addition, the University of Tampa formed a focus group comprised of local real estate professionals in order to identify the skills that were in the greatest demand in the industry. The consensus response from the group was a need for ARGUS software training as an integral part in developing a new, innovative curriculum. In response to the focus group, the university obtained a site license for ARGUS, faculty grants for ARGUS training were awarded, and certification for ARGUS training by faculty was completed.

ARGUS software is now utilized in FIN 600 as an integral part of the course. Students use ARGUS to evaluate the profitability for various types of existing and development properties by performing scenario analysis on the assumptions that impact the property’s cash flows. A series of three cases are completed and presented in the course. The first case is an introduction to

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ARGUS, its capabilities, data input and organization. The second case is performed at an intermediate level of ARGUS usage with a focus on advanced assumptions for rent roll, vacancies, lease structures, expense reimbursements, capital expenditures, tenant improvements, partnership structures, cap rates, property reversion, and report generation using the integration of ARGUS and Excel. Finally, students are provided with *real* property examples from the Tampa Bay area, donated by various companies for inclusion in the course. The inclusion of actual properties, as opposed to theoretical examples, serves to bridge financial real estate theory with its empirical practice and better prepares our students for their respective careers in real estate venturing.

#### 4. MGT 600 – Real Estate Development

Building on the materials covered in MGT 675 and the two other courses in the real estate sequence, this course focuses on the process of developing a new real estate project or redeveloping an existing property. It considers the acquisition of a development site (i.e. land) as a response to market conditions, as well as development as a response to ownership of a site.

Market analysis as the initial driver of the decision to develop is reviewed. The course then proceeds through the steps a developer would take to move from a vacant piece of property to a finished product, including (1) analysis of applicable land use controls and the need (or lack thereof) for rezoning or similar government approvals, (2) the process of assembling a team of professionals to design, permit and construct the project, (3) the components of the development budget which provide a basis for assessing the viability of a project using return on investment metrics, (4) financing a development project, including the use of equity and debt constructs, (5) development of build-to-suit versus speculative properties and the marketing challenges of the latter, (6) the hold versus sell decision-making process and exit strategies used by developers.

The course takes advantage of materials from actual examples of real estate development in the Tampa Bay market. Students will complete a semester project involving the preparation of a development plan (including market analysis, financing and marketing components) for a vacant or redevelopment site currently in play in the local area. Grading will be based on class participation, homework assignments, tests and the semester project. An investor panel similar to that used in MGT 675 reviews the development proposals and involves local real estate experts in critiquing the student projects.

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**BEST PRACTICES AND PROCEDURES NOMINEE:**  
**WHAT DOES IT TAKE TO BAKE AND MARKET A COOKIE:**  
**AN EXERCISE IN PRODUCTION, MARKETING, AND**  
**ACCOUNTING**

**Shawn M. Carraher, Cameron University**

Need – This program is designed to meet the needs of elementary school students in understanding the costs of producing and marketing a product.

Program description – In this Student's In Free Enterprise project elementary school students are initially given a group of chocolate chip cookies. Each student receives 3 cookies that externally appear to be similar. The cookies differ in terms of ingredients. One is a standard Toll House recipe, one is an upgraded variation of the Toll House cookie, and the third one uses the Toll House recipe but with higher quality (and higher priced) ingredients. The students are asked what the differences might be and what it takes to be able to bake a cookie. They are asked to create a recipe and then estimate the cost of production. Typically the students have not thought of the costs of labor (Carraher, 1991) or the costs of shipping. The students are then asked how viable it would be to start a business that would sell chocolate chip cookies over the Internet. The students then are allowed to sample the cookies and a discussion of the actual costs of production, marketing, and shipping are discussed..

Contribution - It is typical for the students to underestimate the costs of doing business 3 to 5 fold. The students are also shocked at the cost differences between the three types of cookies as they typically really don't notice the differences. When the students are asked about the viability of starting a company that would market the cookies via the Internet they are often surprised at just how costly it would be and the rate of breakage for the cookies. The second cookie recipe is one designed by the author and it holds out the best under shipping. This program can also be effective at helping students better understand the importance of having a good cost accounting program.

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# PROMISING PRACTICES AND PROCEDURES SEMI FINALIST

## YOUTH ENGAGEMENT TO ENHANCE AN ENTREPRENEURIAL CULTURE

**Emily Carter, Southern Illinois University**  
**Kimberly Sanders, Southern Illinois University**

Camp CEO, established in 2004, is an annual week-long residential camp targeting youth entrepreneurs from throughout Illinois. This state-wide collaboration among the resources that compose the Illinois Entrepreneurship Network (IEN) has grown into one of the IEN's premier marketing and outreach strategies. An unexpected outcome of this youth training program has been the tremendous impact on the marketing and recognition of the IEN programs and Centers, as well as Southern Illinois University Carbondale, engaging various clients as both mentors and sponsors. Clearly, the return on investment in this program has been profound and has received national recognition.

### **Youth Engagement to Enhance an Entrepreneurial Culture**

#### *Executive Summary*

Camp CEO was created and launched by the Southern Illinois Entrepreneurship Center, in collaboration with multiple partners. Each summer, high school aged campers participate in interactive training and outside business development projects while developing, building, and marketing their own unique business plan and model. This endeavor has had a tremendous impact on the marketing and recognition of the Illinois Entrepreneurship Network (IEN) programs throughout the state, as well as Southern Illinois University Carbondale (SIUC), gaining various mentors and sponsors each year. National recognition for this program, the IEN and SIUC has included being highlighted in the Wall Street Journal, Chicago Tribune, and the St. Louis Post Dispatch.

#### *Need*

Small business development and entrepreneurship are keys to a region's on-going economic well-being and continued growth. Long gone are the days of one-job careers entwined with devout company loyalty and the promise of comfortable retirement rewards. Entire regions are still recovering from the disappearance of manufacturing employment and wondering what, if anything, will replace it. Building an entrepreneurial culture and mindset in these regions is a crucial economic development strategy being touted by experts globally. The challenge is how to change the mindset of millions.

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Entrepreneurial thinking must be encouraged and developed in the youth of a region for a true culture shift to take place. Youth must be exposed to hands-on experiences that lend themselves to practical skill development. Consequently, the collaborative development of Camp CEO resulted.

### ***Program Description***

Camp CEO began as a pilot youth entrepreneur camp developed by the staff of the Southern Illinois Entrepreneurship Center (SIEC). SIEC was established in August 2004 with a grant from the Department of Commerce & Economic Opportunity. The mission of the SIEC is to encourage and nurture the entrepreneurial spirit in Southern Illinois.

Early on in the development of the Center, a commitment was made to not only focus on developing adult-owned ventures, but to convey to the youth in southern Illinois that entrepreneurship is indeed a viable career choice. The efforts to accomplish this very important part of the mission began with the launch of Camp CEO.

Participants of Camp CEO have the opportunity to experience first hand the challenges, rewards, and dedication entrepreneurs live day to day. Camp CEO puts youth in the driver's seat of owning a company. They have a chance to be their own boss as they create their business plan, make new friends, and participate in many fun recreational activities.

Learning activities campers participate in include:

- Leadership Training
- Recreation Center Access
- Games & Competitions
- Outdoor Activities
- Business Site Visits
- Networking Receptions
- Special Speakers
- Professional Etiquette Dinner

Participants develop skills in negotiation, sales, customer service, leadership, problem solving, networking, time management, record-keeping, and public speaking. Using a unique and in-depth approach, this challenging camp instills an outlook and mindset in business ownership that helps youth discover financial opportunities now and throughout their lives.

The campers leave camp with a business plan, a briefcase, business cards, marketing plans, and much more. On the final day of camp, participants have the opportunity to present their business ideas to a panel of judges who will determine if they could walk away with real "venture capital" to start their own company. Camp CEO is all about fun and learning at the same time.

### ***Contribution***

Community engagement and support are valuable pieces in changing the landscape of how entrepreneurship is viewed, especially in a rural economy. Rural areas have been historically slow in embracing the spirit of entrepreneurship, thus omitting opportunities to incorporate that culture among the area's youth population through local programs and institutions. Identifying successful and stimulating ways to connect regional business leaders to 'real-world' youth education is one positive step toward building a sustainable entrepreneurship program in a rural economy.

This approach is a three-way win for the region. By first fostering an entrepreneurial spirit in area youth and the community at large, this partnership has inadvertently proven to be a successful recipe for marketing including attracting and maintaining clients within the Illinois Entrepreneurship Network. The second positive is that clients stay engaged and active while working in collaboration with the University to develop the economic resources of the community at large. The third success is the thriving marketing and recruitment endeavor for Southern Illinois University that has resulted from this community-University collaborative. Higher education is consistently challenged to reach out to communities and businesses instead of taking an ivory tower, campus-centric approach to partnerships in economic development. This innovative youth enterprise is one of the emerging few externally funded programs with campus initiatives and priorities merged with the local and regional business community.

### *Staff*

Emily J. Carter, MBA, is the Interim Director of the Office of Economic and Regional Development at Southern Illinois University Carbondale (SIUC). She also directs operations of the Entrepreneurship Centers in Carbondale and Centralia. Ms. Carter's extensive business development experience also includes over ten years with the SIUC Small Business Development Center and Southern Illinois Entrepreneurship Center where she counseled hundreds of entrepreneurs and successfully packaged millions of dollars in loans. Ms. Carter is a third generation southern Illinois Entrepreneur with over fifteen years of small business experience. Her professional affiliations and advocacy efforts include serving as Chair of the Small Business & Entrepreneurship Committee of the Illinois State Treasurer's Advisory Board on Women's Issues, President of the Illinois Small Business Development Association, and board member of the Illinois State Micro enterprise Initiative. Ms. Carter holds a Bachelor's in Marketing and a Master's in Business Administration from Southern Illinois University Carbondale. She is an experienced presenter at both regional and national conferences including numerous appearances at the Association of Small Business Development Centers.

Robyn Laur Russell is the Director of Business Development and International Trade and manages the Illinois Small Business Development Center at SIUC. Russell brings in a combined background of education and business development to our program. Russell's educational background in journalism and marketing adequately prepared her to work in the community at a chamber of commerce and in a higher education/business setting at a small business development center. She has also been a book editor/designer and a technology manager rounding out her strengths in the areas of information technology, policy and procedure formulation, and in written and graphic communications.

Kim Sanders received a Masters in Business Administration from Southern Illinois University Edwardsville in 1999 and has recently completed a Masters in Public Health from SIUC. Ms. Sanders started her career in small business management developing her skills in a

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variety of diverse business areas. She also worked in marketing for the U.S. Department of Commerce involving regional business engagement strategies in U.S. Census activities. For the past five years she has been involved in economic and health-related research, workforce development issues, and community connectivity strategies. She has presented and co-presented at numerous regional, state and national conferences.

Anja Meksem is a graduate assistant and entrepreneurship specialist in the Southern Illinois Entrepreneurship Center. A native and corporate-level business woman, from Cologne, Germany, Anja brings international experience to our team. Anja graduated from Southern Illinois University Carbondale with a Bachelor's in Marketing and is currently working toward her Master's degree in Business Administration.



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## **BEST PRACTICES AND PROCEDURES: PROMISING PRACTICE AWARD**

### **E-BAY AND GLOBAL BUSINESS: SUCCESSFUL WAYS TO FAIL AT BUSINESS START-UP**

**Shawn M. Carraher, Cameron University**

Need – This program is designed to meet the needs of secondary school, undergraduate, and graduate students in understanding the costs of opening an Internet Based business.

Program description – In this Student's In Free Enterprise and Masters of Science in Entrepreneurial Studies project high school, undergraduate school, and graduate school students are assigned to start a business on E-bay. The goal is for the student's to learn to fill market niches and how NOT to do it. The students begin by studying on E-bay a class of products that they might be interested in selling. They track the products for at least a week and then write up a proposal as to what they would like to sell and why they believe that they could do a better job at selling products than those currently selling them on E-bay. The proposals are then reviewed and the best three in each category (high school, undergraduate, and graduate) are given some seed money to seek to operate their businesses for a month. After the businesses operate then the classes are debriefed and critiqued in terms of how they operated. Suggestions are made as to how they could operate better in the future. Students are taught the basics of performing a strategic gap analysis and modes of differentiating products and services.

#### 6-Step Strategic Gap Analysis

Step 1 – Identify an organization's or individual's available resources and determine areas of strength and weakness as compared to ones competition.

Step 2 – Identify the organization's or individual's capabilities or what they can do with the resources that they have available to them.

Step 3 – Evaluate the rent generating potential of their capabilities and evaluate them in terms of their potential for developing them into a sustainable competitive advantage.

Step 4 – Select a strategy that best helps the organization or individual to exploit the capabilities and achieve a sustainable competitive advantage that offers excess economic rents.

Step 5 – Identify strategic resource gaps that exist between what the organization/individual needs to be able to do and what they are able to do.

Step 6 – Seek to fill the strategic resource gaps that are identified in Step 5.

Contribution - The contribution of this program is that it takes the theory of the classroom and takes it in to real life in a way that the students can better relate to the material. In the years that this has been used less than 1/3 of the high school or undergraduate student teams even break even. Over 2/3's of the graduate student teams have been able to make money although as it is done as part of a Global Entrepreneurship class and their businesses focus more on bringing products from other countries and then marketing them from an American address which lessens the worries of the American consumer and increases the size of the market for the product. We have found that many American consumers hesitate to purchase products that are offered by sellers outside of the U.S.A. The reasons behind this include unfamiliarity with business practices outside of the U.S.A. and concerns about the shipping time. In studies done with 990 transactions done on E-bay the median shipping time for domestic products was less than that for international products although the average time was not any different due to a higher standard deviation for domestic shipping. The product categories studied have included amber, videos, jewelry, books, and music CD's.

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## PROMISING PRACTICES AND PROCEDURES SEMI FINALIST

### ENTREPRENEURSHIP PROGRAM AT SEATTLE UNIVERSITY

Leo Simpson, Seattle University  
Steve Brilling Seattle University  
Harriet Stephenson, Seattle University  
Joseph Phillips, Jr., Seattle University

Newly offered and to-be-offered parts of the Entrepreneurship Program at Seattle University are described herein as evidence that the Entrepreneurship Program at Seattle University should receive recognition in the Promising Practices category. These areas are currently focused on microenterprise/social entrepreneurship initiatives locally and globally. Four courses are included:

1. an Entrepreneurship graduate level cross-discipline course with MBAs and Law students which is in its second year of offering;
2. an MBA cross-discipline course in Social Entrepreneurship: Triple Bottom Line normally offered during the summer quarter with the summer of 2008 having an increased focus on developing plans for social enterprise in a Ghanaian village with an enhanced option of including a two week study tour to Ghana;
3. a new undergraduate cross-discipline microenterprise/economic development course-study tour offered by Economics to villages in Ghana that will be offered during the summer of 2008 --includes a project to develop a social enterprise plan for specific villages;
4. an enhancement alternative to the summer 2008 senior business capstone course which will integrate global microenterprise issues and cases into the SBI based content and include the Ghana study tour option to villages in Ghana in addition to offering an opportunity to work with village-based microenterprises; and
5. a prison microentrepreneurship initiative to include prisoner-clients as SBI clients in the senior capstone course with an intent to enter in the business plan competition sponsored by the Entrepreneurship Center.

Interest areas include:

- New entrepreneurial curriculum 1 & 3
- New or innovative classroom delivery 1, 2, 3, 4, 5

- Innovation in attracting and maintaining clients 1, 2, 3, 4, 5
- Promoting entrepreneurship across the curriculum 1, 2, 3
- Integration of global business issues or practices especially microenterprise and social enterprise 2, 3, 4
- Community Development and outreach (social entrepreneurship) 1, 2, 3, 4, 5

#### I. NEED FOR ITEMS 1-5 AS PART OF THE PROGRAM THAT FOR-CREDIT ENTREPRENEURSHIP OFFERINGS CAN MEET

1. Law and Business students have a need to see how the content of what they are learning can be applied. Further, how can law and business be used to solve problems and help "the little entrepreneur"--provide services which cannot be afforded by those who need it and who can possibly use the funds to develop their business into something that can earn a good wage? The SBI program at SU has done consulting with small business and microenterprises for many years. One area of the consulting that always seemed to get overlooked was the legal. The business students do not seem to have enough law to know when the client needs help and what the client needs to look out for and how legal issues contribute to achieving the various bottom lines. The law students do not normally seem to have a good enough grasp of business issues to be able to see a more complete picture of how the legal fits in with the business to maximize value.

2-4 Experiential learning has gotten a big push from accreditation agencies. Also, globalization has been an issue that has not been adequately dealt with. Increasingly the SBI and MBA social enterprise classes have been taking social enterprise cases in developing countries. Last summer students in the senior capstone did a feasibility study for starting a coffee shop/restaurant staffed by handicapped personnel as job creation, social enterprise to help solve societal problem in India. A student in the MBA social enterprise class last summer did a study on the use of solar power in a village in Ghana. The person who administers the program in the village in Ghana spoke to the undergraduate senior capstone course. Adding the study tour option to those two classes will enable the students to make their studies even more realistic to gather data on site and meet the people with whom they are working. The proposal to add the study tour and new Economics class was met with enthusiasm by the School. As it was OK'd, it was viewed as a unique offering both from the global microenterprise/economic development part of it and getting our students involved in helping solve the challenge of poverty and hunger in Africa. If the study tour goes well in 2008, it is envisioned that another Kenya option would be added with two villages about three hours out of Nairobi.

The prime faculty members teaching 2-4 were co-founders of a micro loan/economic development program in one of the villages that will be visited by the study tour. The University sent 3 interns to the village area in Ghana last summer, so it looks like this will be a promising practice ... these were Masters students out of an interdisciplinary program based in the Provost's office.

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There is a need to get as much feedback as possible on how realistic or useful a student's application of knowledge and experience is. It is anticipated that many student teams from 2-4 will submit their plans for the business plan competition. This gives more feedback and brings different points of view to bear.

This provides an opportunity to bring in faculty advisors/speakers from the African Studies Program and students from other areas such as engineering, the masters in nonprofit leadership, and others to help make this even more interdisciplinary. A student in the Executive Masters in nonprofit leadership was a co-founder also of the village micro-credit program. That student and the SBI director got a co-authored refereed article out of a case about the start up of the program in Ghana.

There is a need to get colleges and universities involved in solving problems in process of learning content. Experiential learning is a gold mine of opportunities. The intent is to network with other SBI and SIFE programs locally and globally to "adopt" villages and see how students can help villages help themselves to identify problems and solve their own issues. This is a promising globalization of the SBI program and moving across the curriculum and faculty while bringing in the business community locally as well as globally to enhance the learning and growth experience for the students, faculty, and the clients.

There is a need to network the various microcredit programs that are going on globally and locally. The intent is to develop HUBS—the first one will be a pilot of Pokuase, Ofankor, Amassaman, Media, and Trom (which is a village that Bentley College is working with)

#### PROGRAM/ PROCESS/ PEDAGOGY/ DESCRIPTION

The first course is: Graduate class MBA/Legal clinic. Ten Law Students and 10 MBAs consult with and mentor with microenterprises and small business in the central area. This is partnered with Washington CASH, a local microcredit organization that uses the Grameen Bank village lending model with a group of 4-5 women guaranteeing each others loans and Community Capital Development a local lending institution designed to help small businesses who are not bankable, borrow money. Both organizations include training in their models. The program is beginning its second year receiving enthusiastic reviews from the clients, partners, students, and community practitioner mentors that are included. Feedback from extensive evaluation was assessed to enhance the program and learn from experience. The course is a two quarter equivalent for MBAs and a one semester equivalent for Law students. A Law student is teamed with an MBA student and then they are teamed with a client. Class content exposes the Law and MBA students to business issues and applications that run the gamut from micro enterprise to small business. Students are mentored by business and legal faculty as well as business mentors.

2-5 involve in-depth SBI consulting projects which are geared to the marginalized and poor, with less access to resources or who are part of serious problems of hunger, poverty, AIDS, orphans, or educationally-challenged.

The program is innovative because it is integrative of people, knowledge, resources, diverse student populations, and different academic persuasions. The methodology involves reading, talking, questioning, researching, promoting, applying knowledge, meeting new people, testing

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one's values and leadership skills ... truly this program has the possibility of networking colleges and universities through similar programs to have a significant impact on the leadership role of the U.S. In addition, there are enhanced trade opportunities and enhanced possibilities to help solve issues of energy and water. The model attempts to be a sustainable triple bottom line program that maximizes value of many stakeholders.

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**BEST PRACTICES AND PROCEDURES NOMINEE:****THE BUSINESS FINANCE CHALLENGE: HOW TO TEACH  
HIGH SCHOOL STUDENTS ABOUT FINANCE AND  
FINANCIAL CONSULTING**

**T.K. Bhattacharya, Cameron University  
Shawn M. Carraher, Cameron University**

**Need: The need for this program is that so few EXCELLENT high school students think of business or entrepreneurship as a possible career field. Typically high school teachers try to steer the best and the brightest students towards Engineering and the Sciences as opposed to business.**

Program Description – Each participating school was given a sample personal finance case study to prepare for the competition. On the day of the competition, each team was given another personal finance case study and the teams were asked analyze the case and make a presentation. The cases were ones written to be typical of financial problems that would be faced by entrepreneurs and highly skilled professionals. A panel of judges from the community and the university picked the winners. Winning teams were awarded trophies, and members of the winning team were awarded scholarships to attend our university.

Contribution - The goal of this project was to improve financial education at area high schools and to showcase the opportunities provided by our university for education in business and entrepreneurship. Funding for this program was provided by the Jack and Joyce Amyx Endowed Lectureship for Business Education, the BancFirst Endowed Lectureship for Finance and the BancFirst Endowed Lectureship for Investments. The competition was conducted jointly by Students in Free Enterprise and the School of Business. The performance of the high school students was commendable and this year more schools will be invited to compete and more scholarships offered. Of the five members of the winning team, four members joined Cameron University in fall 2007. The next competition is planned for Feb. 29, 2008.

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**BEST PRACTICES AND PROCEDURES SEMI-FINALIST****NOMINATION OF HOWARD VAN AUKEN FOR SMALL  
BUSINESS INSTITUTE'S® BEST PRACTICES & PROMISING  
PRACTICES AWARD****Howard Van Auken, Iowa State University****Program Description**

Howard Van Auken (Iowa State University) developed a six week summer entrepreneurship program in Spain. The program provides students an integrated opportunity to learn entrepreneurship, language, and culture in an international context. About 45-50 students per year participate in the program. The innovative and unique aspect of the program is that entrepreneurship, culture, and language are fully integrated into the students' experience.

Specific aspects of the program included:

1. Entrepreneurship courses (1) introductory entrepreneurship, (2) experiential entrepreneurship learning (business majors), (3) experiential entrepreneurship learning (non-business majors), and (4) internship with Spanish business for students with appropriate Spanish language skills.
2. Lectures about various aspects of entrepreneurship in Spain and the European Union (e.g. government policies, marketing, foreign exchange, European Union, legal system, obtaining capital, etc).
3. Learning projects that require student to independently experience small business operations (e.g. comparative studies that require student to visit small firms, entrepreneurial opportunity recognition in Spain)
4. Excursions to and presentations by owners of small Spanish businesses (e.g. winery, toy factor, shoe factory, resort, etc).
5. Independent living with host families during the six week program. Independent living enables students to improve Spanish language skills and gain insight into Spanish culture.
6. Required enrolment in at least one Spanish course to improve language and culture skills. No previous Spanish language was needed.
7. Required participation in cultural activities as part of the program (e.g. visits to museums, lectures about business etiquette, wine seminars). These activities gave students a broad exposure to Spanish culture.



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## Need Met

Entrepreneurs must be prepared to operate in global market in a manner that promotes the greatest sensitivity to and understanding of the international context within which businesses operate. Achieving this is major challenge for programs and students at a university far removed from international boundaries and cultures.

Despite having a nationally ranked entrepreneurship program and university-wide entrepreneurship minor, ISU's entrepreneurship program had no international component or opportunity to learn about entrepreneurship in an international context. Creation of an international entrepreneurship course was unlikely due to budget and staffing limitations. Additionally, a domestic-based international entrepreneurship course would have provided student limited exposure to culture and no exposure to language. This program complemented the existing entrepreneurship program while having almost no direct budget impact.

The gap in ISU's program provided a unique opportunity to develop student-based entrepreneurship learning in a foreign country in a manner that fully integrated a wide range of activity. The program was purposely structure to enable students to learn about the impact of culture and language on small business operations. This unique exposure also helped students to better understanding the cultural nuisances of doing business in the US.

## Innovative Nature of the Program

Few entrepreneurship programs in the US offer students the opportunity to experience a program that fully integrates entrepreneurship, culture, and language in the foreign country. The unique features of the program are:

- (1) The full integration of entrepreneurship, culture, and language into the student learning experience. Student developed a more comprehensive understanding of both domestic and international entrepreneurship through this experience.
- (2) The structure of the program in a manner to incorporated many difference student experience. Experiencing many different aspects of cultural and learning both formal and informal Spanish language complemented the entrepreneurship curriculum.
- (3) The structure of the entrepreneurship course. Students were exposed to focused lectures, experiential learning exercises, class discussion, and business excursions.

Pre- and post-program data was collected on various aspects of students' experience, understanding of Spanish culture and language, and interest in starting a business. The results showed that many aspects of the program significantly increased attributes commonly associated with successful entrepreneurship, such as greater self confidence, ability to work in teams, ability to work in an ambiguous environment, ability to adapt, etc. The data clearly showed that student interest in starting a business significantly increased as a result of participating in the program.

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**BEST PRACTICES AND PROCEDURES NOMINEE:**

***HOW TO USE A BOARD OF ADVISORS AS MORE THAN  
ADVISORS: INTEGRATING ONES BOARD IN TO THE  
ACADEMIC PROCESS***

**Shawn M. Carraher, Cameron University**

Need – The need for the use of the Board of Advisors as more than advisors has existed since the creation of the Master’s of Science in Entrepreneurial Studies program at Cameron University. The state Board of Regents had had an unpleasant experience with an undergraduate entrepreneurship at another state university and therefore they were concerned about allowing another university create a program in the state that might not be effective. In order to answer the concerns a top notch external board of advisors who were content experts were recruited and asked for their suggestions as to how to design the program and now are actively involved in the work coming out of the program.

Program description – The Board of Advisors for the Entrepreneurial Studies include the following: M. Ronald Buckley, University of Oklahoma; Frank Hoy, University of Texas, El Paso; Samuel Lane, Lane Import; Charles Matthews, University of Cincinnati; John Parnell, University of North Carolina – Pembroke; George Puia, Saginaw Valley State University; Terri Scandura, University of Miami; Sherry Sullivan, Bowling Green State University; Howard Van Auken, Iowa State University; Dianne Welsh, University of Tampa. Initially we used the board of advisors to answer questions what should be included in an MSE program and currently use them as mentors for the program and also to evaluate the work of our students.

**Contribution - The program is currently two years old and the board is advisors has existed for almost 3 years. They were helpful in designing a program that allows our students to have a good grasp of the material required to be successful as an entrepreneur – or to do research in entrepreneurship. We currently have our core students having their business plans and research projects evaluated by members of the board as well as internally. This has been extremely useful at showing the students areas where they would need to improve their business plans and also areas in which they would need to improve their research skills. When we first began the process we had 0% of the research papers that were deemed acceptable and only 50% of the organizational projects. Since that time**

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**we are up to 75% of the research projects being acceptable and over 90% of the organizational projects. The increase in the quality of the research has led to a large increase in the number of student authored papers being presented at academic conferences and submitted to journals.**

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## WORKSHOP

### LEGAL AUDIT: RULES & EXCEPTIONS FOR ENTERPRISE SUCCESS

**Stephanie Huneycutt Bardwell, Christopher Newport University**

#### Executive summary/Abstract of the Workshop

No business enterprise can exist successfully without a legal plan to direct, design and even deter the principals from dangerous practices. This is true whether in start up, growth or maturity phase.

This workshop will present the highlights of the **Bardwell Legal Audit: Rules & Exceptions for Enterprise Success**. Information and techniques which should be employed by business consultants, legal counselors, attorneys and general counsels to protect and improve business enterprises at every phase will be succinctly presented for use by business consultants, legal advisors and enterprise principals. All participants will receive materials and training to conduct a legal audit and suggestions for customizing the Legal Audit to best serve the circumstances of the business enterprise.

Hot topics in business with Legal Rules & Exceptions will include:

Legal decisions requiring compliance or change of business practices especially for entrepreneurs and small business owners; Bardwell's 2008 "Top 25 Legal Issues©";

This workshop will be conducted by an experienced SBI Director, who is a Certified Small Business Counselor, and a licensed active member of both the California and New York bars. All copyrighted materials created by the author will be included in the Workshop experience and provided to the participants, including: PowerPoint notes, The 2008 Business Alert USSC Primer©, Top 25 Legal Issues©, MAPPING as a Strategy for Business, Legal Surveys, and Embezzlement Prevention Pointers.

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## **Workshop:**

# **33 QUESTIONS ENTREPRENEURS ASK ABOUT ANGEL CAPITAL**

**Joseph Bell, University of Arkansas, Little Rock**  
**John Hendon, University of Arkansas – Little Rock**

### **Abstract**

This workshop will walk participants through an interactive program addressing the major points to gain access to Angel Capital. The session will cover each phase through the process from defining their need, identifying their targets, and what terms the agreement might address. The presenters have reduced the process to 33 questions a prospective entrepreneur might ask on their way to Angel funding. Attendees will leave with a better understanding of the Angel process and how they might work with prospective entrepreneurs on their way to Angel funding.

### **The Program**

The program begins with a differentiation between Angel and Venture Capital investment. Here participants will learn what is an Angel appropriate deal and one that should seek other sources of funding. A brief coverage of other appropriate funding sources will follow.

Launching back into Angel funding the identification and the strategy on how to approach an Angel will be covered, the terms of the agreement, what to expect through the process, and how it might end. Count on a few humorous moments!

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**PROMISING PRACTICES AND PROCEDURES SEMI-FINALIST****UNIVERSITY OF WISCONSIN – PARKSIDE  
ENTREPRENEURSHIP CERTIFICATE****Cathleen Folker, University of Wisconsin-Parkside**

The UW-P Entrepreneurship Certificate is a new entrepreneurial curriculum for our small university (approximately 5,000 students) that focuses on social entrepreneurship through community development and outreach. This program was designed to meet the needs of our student population from across the university as well as the need for community development.

**I. The Need**

The UW-P Entrepreneurship Certificate is a new entrepreneurial curriculum for our small university (approximately 5,000 students) that focuses on social entrepreneurship through community development and outreach. This program was designed to meet the needs of our student population from across the university as well as the need for community development. The Racine-Kenosha, Wisconsin corridor (where UWP is located) is moving from its manufacturing roots, and this program is designed to help build businesses within the local communities. Also many students had indicated an interest in owning their own businesses.

**II. The Program**

The Entrepreneurship Certificate includes 4 courses for 12 undergraduate credits that is open to students from across the university allowing for Arts and Sciences students to have an opportunity to build the necessary business skills to start their own firms.

The certificate program in Entrepreneurship helps students develop tools and understanding that will help them be successful whether in their own new ventures, working in their family's business, or working for an entrepreneurial firm. The truly distinctive feature of this program is the focus on socially responsible entrepreneurship and community development.

**The skill-sets developed in Certificate Program can be applied to other businesses as well. Students learn practical and theoretical training in the process of business start-up including self-assessment, opportunity recognition, feasibility assessment, creating a values-based business, writing a business plan, learning to manage and lead the growing new venture, hands-on experience with existing new ventures.**

Courses include:

ENTR 250 Entrepreneurship Principles – This course covers the principles and key concepts of Entrepreneurship, focusing on self-assessment, opportunity recognition, innovation & creativity, and the various functions involved in starting a venture. Prerequisite: Sophomore standing or permission of instructor. Co-requisite: BUS 100 or other business course.

ENTR 350 Entrepreneurial Leadership – This course covers the theory and application of leadership principles to entrepreneurship, integrating a community-based service-learning

project, guest speakers (successful local entrepreneurs), and on-site visits to new ventures and resource centers such as Center for Advanced Technology and Innovation (CATI) and SBDC. Prerequisites: Sophomore standing, BUS 100 or other business course. *Co-requisite: ENT 250.*

ENTR 400 Entrepreneurial Strategy – This is a “capstone course” that features creating a business plan. The course will be functionally integrative, using case studies that incorporate the many functions involved in new ventures. The course will also cover new venture formation. Students will have an opportunity to work on a business plan for Center for Advanced Technology and Innovation (CATI) technology if there is a match between interests, skills, and available opportunities. *Prerequisites: ENT 250.*

ENTR 450 Entrepreneurial Projects – Hands-on project work (working with owners and managers of small businesses and non-profit organizations) performed with faculty supervision in the Solutions For Economic Growth (SEG) Center. The projects will specifically involve the use of the “lab” for an entrepreneurial project. All projects will employ the project management protocols developed in SEG. Prerequisites: *ENT 250 and ENT 350.*

### **III. The Contribution**

This program was developed with the understanding of the strengths and resources that UWP has. UWP has recently been acknowledged as the only University in the State of Wisconsin to be honored with the Carnegie Foundation new Community Engagement Classification. UW-Parkside was selected in both the Curricular Engagement and Outreach and Partnerships categories. Also UWP is the most diverse campus in the U.W.-System. Our School of Business and Technology (SBT) is AACSB accredited. UWP partners with CATI to promote economic development in the region. Recently, the University of Wisconsin-Parkside School of Business and Technology and the Center for Advanced Technology and Innovation (CATI) were recognized by the International Economic Development Council (IEDC) for technology-based economic development.

With these resources and strengths as a backdrop, the Entrepreneurship Certificate program was designed to build on the capabilities of the university and its partners. (see Appendix A for an outline).

Two of the four courses focus on community based learning and social entrepreneurship. The certificate program is a new program which began in Fall 2007. The first Entrepreneurial Leadership class is currently working on creating a business plan for the Root River Environmental Education Community Center (REC) being developed in Racine as a partnership between UWP and the City of Racine.

### **Appendix A**

#### **Outstanding Features of the UWP Entrepreneurship Program**

***Theory + Application + Resources + Focus on Benefiting Others = Successful Program***

#### ***Theory:***

***Entrepreneurship; Leadership; Strategy***

***Application:***

***E-Teams working on real-life projects; Real Entrepreneurs interact in the classroom***

***Resources:***

***CATI; SEG Center; SBDC***

***Focus on Benefiting Others:***

***Themes of Socially Responsible Entrepreneurship; Social Entrepreneurship; Community Engagement and Development; Development of Minority and Women Entrepreneurs flow through-out our courses.***

***Vision of our successful program: UWP will become a leader in Entrepreneurial Economic Development in Wisconsin.***

- Focus on Socially Responsible Entrepreneurship & Community Development
- Opportunity to Connect with CATI patents and create viable technology business

**Creating the UWP Entrepreneur**

*Leads through the vision of a better world - utilizing technology, community, and social resources.*

*Recognizes the impact of change and works towards positive change in their own and other's communities*

*Integrates a diverse workforce and gives opportunity to others to develop*

*Acts and responds in an ethical and community-value driven manner.*