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Proceedings of the Academy of Free Enterprise Education

Table of Contents

INTEGRATING CORPORATE SOCIAL RESPONSIBILITY IN FREE ENTERPRISE EDUCATION

Chi Anyansi-Archibong, NC A&T State University
ARCHIBOC@Athena.NCAT.edu

ABSTRACT

This papers present a Students in Free Enterprise (SIFE) project at North Carolina A&T State University. The project discusses corporate social responsibility in a free enterprise system. Specifically, the paper tested and discussed the reactions of consumers to a large retailers policy to eliminate sales of compact discs with "explicit sexual and/or gangster" lyrics. A survey instruments, interviews anf focus group were applied in the study.

Additionally, the paper discusses corporate social responsibility and uses the findings to create document for teaching basic ethical behaviors at the middle school level. Suggestions for future projects were also suggested.

INTRODUCTION

Organizations do not exist in an ethical and social vacuum. They exist because the society or a segment of it needs its products or services. It is therefore imperative to integrate the discussions of social responsibility and its potential impact on organizations in the programs to educate the youth about free enterprise. The concept that business must be socially responsible sounds appealing until someone asks: "Responsible to Whom?" (Hunger and Wheelen, 1996). From the strategic point of view, business corporations need to recognize their responsibility to the society in attempt to operate not only independently but also effectively. Outright negligence of some responsibility may create friction and open conflict as has been seen in several corporate boycotts.

Caroll (1979) proposed four areas of corporate responsibility-economic, legal, ethical, and discretionary. The economic responsibility requires corporations to produce goods and services of value and Legal responsibilities are defined by government in laws. These two are not necessary social responsibilities, they are what a business firm must do to stay in business. However, Ethical and Discretionary responsibilities display better characteristics of social responsibilities. Where ethical responsibilities require firms to work with its community (employees, city, etc.) according to prevailing ethical values and without legal enforcement, discretionary responsibilities in contrast, are the purely voluntary obligations that a corporation assumes.

This project (SIFE's) attempts to educate and encourage the integration of both discretionary and Ethical responsibilities in free enterprise programs.

“RUBBERMAID FOUNDATION GOOD BUSINESS IS GOOD BUSINESS”

To meet the objectives and requirements of the challenge on social responsibilities in a Free Enterprise system, North Carolina A&T State University (NCATSU) SIFE designed, pilot tested, and implemented a two tier program in its free enterprise education program. The initial project was designed to create both the awareness of Corporate ethical behavior, test the impact of such a decision on the company's profit, and the attitude of Greensboro community/consumers on the decision. The second and follow-up project created a module designed to educate Middle School children about ethics and social corporate issues. This project origin inated from a local newspaper report on a small North Carolina Community which was divided on the decision of a local dominant to stock only edited (clean) CDs . Some parents applauded the decision while others rejected what they called "violation of consumer right to choose and listen to whatever lyric is preferred."

PROJECT METHODOLOGY

The study hypothesized that the survey focus group and interviews will generate the following results.

Propositions:
1. Teenagers are most likely to oppose ethical decisions such as stocking "edited CDs" than parents.
2. A popular local D.J. will play any CD requested by the audience.
3. The retailer will experience some decrease on CD sales following the decision.

To test the first proposition, NCATSU SIFE designed a survey instrument (see analysis). The instrument had five questions which included the participants CD purchasing habits where, frequency, retailer policy and reactions to the policy. Three hundred (300) surveys were distributed and completed. Fifty percent to teenagers and the other half to adults (College students and faculty with children as well as other community parents). Parents were asked to respond to questions and the instruments were completed by the interviewer.

ANALYSIS

Analysis of completed surveys showed the following responses from the participants.

Question 1. Do you purchase compact discs from the identified retailer? Two hundred and two respondents said No (191 teens and 11 adults), while a total of ninety-eight said Yes (19 teens and 79 adults).

Question 2. If yes, when was the last time you made a CD purchase there? Responses ranged as follows: fifty-two(52) within the last 1-3 months, thirty-five (35) within the last 4-6 months, and eleven (11) in the last year.

Question 3. Were the respondents familiar with the retailer's policy on CD censorship? One hundred and sixty (160) respondents said no, while the remaining one hundred and forty (140) indicated a positive response.

Question 4. Indicate whether knowledge (or lack) of the censorship had or would have influenced your decision to purchase or not purchase from the retailer? Sixty (60) percent of respondents said yes, 32 percent said no, and 8 percent said that it would not make any difference in their decisions.

The fifth survey question which asked for open-ended response (Do you feel that the identified retailer has a social responsibility to its community in terms of the types of music they sell? For example, should the retailer stock or sell "Gangster Rap" music?) received comments such as:

-"Yes, the retailer has a social responsibility to its community in terms of the type of music they sell. Since the retailer is a "family store", they should sell music that pertains more to the crowd that shops at the store."

-"No, I feel that the ultimate decision to buy music should be placed on the consumer. Stores should not be able to "play parents to the community". If they can sell playboy home videos, they can sell "Gangster Rap."

-"I feel that the store should sell all varieties of music. Just like any other music store. Just because "Gangster Rap" is not sold at this particular store doesn't mean that young kids can't go to another store and get it."

-"I personally feel that they have an obligation to sell whatever the community demands. If the community buys and listens to "Gangster Rap", Country, Jazz, R&B, Blues, or Symphony music, the retailer has the obligation of providing the consumers with what they demand most."

-"I think that the retailer should be entitled to sell whatever kinds of music they see fit, but they must keep in mind that with this type of censorship, they are losing valuable customers."

-"I believe that they should be aware of the type of information that they allow to go through their doors."

-"Retailer sells cigarettes and beer. Music censorship is a violation of rights, not social responsibility."

DISCUSSIONS AND OUTCOMES

Based on the above findings, NC A&T SU SIFE arranged for a focus group to discuss the issues. The group was made up of college students, parents, middle and high school students, and two popular radio disc jockeys (Djs). It was not possible to reach a clear consensus on the level and type of responsibility shown by retailer. The discussion ended with majority of the participants (62%) stating that the retailer was overstepping its responsibility. They argued that this decision was a violation of the firm's "economic responsibility" which should be to satisfy customer needs as a business entity. Twenty-five percent of participants (mostly the parents) supported the policy and expressed appreciation for the effort of the retailer to help in the upbringing of the youth. The Djs were of the opinion that their responsibility was to the listeners. According to one of the DJ's "I will not refuse to play a popular request because it contained "explicit sexual or gangster" lyrics."

Appendix A presents a teaching material (Integrity is never compromised) which is designed to create further awareness of ethics and personal integrity among middle school children. This document was based on the conclusions from an earlier study (ANYANSI- ARCHIBONG, 1993) that corporate ethics (ethical and social responsibilities) originate mostly from the integrity of its leaders and that it is difficult to reach a consensus on the issues moral rights/behavior or responsibility. Yet, it is important to present issues and create awareness with some understanding that the individual or firm will in some way learn to be "socially " responsible. Additionally another study (NC A&T SU SIFE 1994) show that ethical values were often better inculcated at earlyages of development. The document was integrated into The Junior Acievement Program (Our Nation) for the middle school education.

FUTURE STUDY/PROJECT

The pilot test of the "Integrity" document which was introduced in three middle school classrooms was well received. SIFE plans to revisit and expand the scenarios to include more business ethical behaviors. Emphasis will be placed on scenarios which will be consistent with the small business ideas which are generated by the young students. There are no better approach to learning than through projects which involve the learners. SIFE education projects are built on these bases and corporate ethics can clearly be infused into free enterprise education through scenario creation and analysis.

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Appendix A

INTEGRITY IS NEVER COMPROMISED: ETHICS AWARENESS FOR TOTS AND TEENS

PUZZLES AND SCENARIOS SPONSORED BY:
NC A&T STUDENTS IN FREE ENTERPRISE

WORD PUZZLE

Instructions: Select the best definition for the words in the left column and insert the number in the space provided.

!. GOOD	__ incorrect
2. BAD	__ untrue statement
3. RIGHT	__ not good
4. WRONG	__ fact or reality
5. MORAL	__ truthful
6. IMMORAL	__ fraud or trickery
7. TRUTH	__ to use and return something
8. LIE	__ not bad
9. CHEAT	__ take away someone's property
10. HONEST	__ not moral
11. DISHONEST	__ correct
12. BORROW	__ morally wrong
13. STEAL	__ morally OK
14. ETHICAL	__ lack of truth
15. UNETHICAL	

SCENARIOS:

1. Your friend did what he/she was not supposed to do. He/she asks you to lie for him/her. Is it OK to do so? Yes or no. Explain.

2. You saw and copied your quarter exams and made good grades- Good or bad? Explain.

3. You broke your mother's beautiful vase. She is angry, but since she didn't see you do it, you deny knowledge of what happened. Good or bad? Explain.

4. You borrowed a book from a classmate, but lost it and claim you put it in the desk when the classmate was not there. Good or Bad? Explain.

5. You need 5 more dollars to purchase a CD. Your mother had some money left out on the counter. You take the money you need without asking, but you will pay her back. Is this right or wrong? Explain.

6. You walk past the candy bins in the grocery store one day. You take one, eat it, and go on your way. Was this right or wrong? Explain.

7. Your parents left you home alone. They told you to do your homework and do not watch TV while they were gone. You watch TV anyway. Is this good or bad?

8. You forgot to do your science project. You told your teacher you were very sick yesterday and could not do it. Was this lie right or wrong? Explain.

9. You are taking a difficult test. Your teacher leaves the room, so you copy your neighbor's answers. Was this right or wrong? Explain.

10. You are at the arcade and ten dollars falls out of a woman's purse. She did not know it fell. Should you keep or return the money? Explain.

ECONOMIC DEVELOPMENT INCENTIVE PACKAGES AND THE FREE ENTERPRISE "GAME" AMONG THE STATES: AN ASSESSMENT

Ernie P. Goss, Creighton University
George S. Vozikis, University of Tulsa
VozikisGS@centum.utulsa.edu
Peter O. Lehman, South Carolina State Ports Authority

ABSTRACT

There is a growing skepticism whether the state economic development incentive packages are worth the cost to taxpayers. Many states are beginning to take a more critical view of their incentive packages and are attempting to upgrade their efforts to assess the performance of their economic development programs. A survey of all fifty states, Puerto Rico and the Virgin Islands was conducted in this study to investigate whether a cost-benefit analysis of state economic development packages is undertaken by the states, and if so, identify the factors that are used in that cost-benefit analysis, such as, the use of multipliers to estimate benefits, whether spillover impacts are incorporated in the analysis, the consideration of environmental impacts, etc.

INTRODUCTION

> "When seen from a national perspective, economic development policy makers are involved in a zero sum game. When one state wins by convincing a firm to locate within its boundaries, the other 49 states lose (Rubin, & Zorn, 1985).

Economic development is a term that is widely used, but seldom clearly defined, because it encompasses a broad range of activities, efforts, and incentive packages. Very simply, economic development refers to the creation of wealth. Any activity, effort, or incentive "package" that promotes, preserves, strengthens, or protects the U.S., state, or community economy and enhances their ability to compete with other nations, states, or communities can be viewed as economic development. It is quite obvious therefore, that economic development in a free enterprise system refers to improved economic conditions i.e., better jobs, higher per capita income, higher skill levels in the work force, and more efficient production methods, rather than an attempt toward a mere increase in the same types of jobs, and goods or services currently in existence.

Economic development is achieved by a nation, state, or community by attracting, retaining, expanding, and developing businesses in a region, thus bringing "new" dollars to the area to fuel the region's economy. States undertaking economic development activities have to develop attractive incentive and benefit packages to lure these "new" dollar investments into their region, which unfortunately also carry some real, out-of-pocket costs, as well as costs in other forms, such as strain on a state's infrastructure, pollution, or higher prices of goods and services resulting from increased demand, etc. (American Association of State Colleges and Universities, 1990.) It is quite obvious therefore, that in developing an incentive package as part of and economic development policy, a state has to maximize its benefits and minimize its cost. The question then becomes, how much is enough? how much is too much? At what point the costs of an economic development activity and incentive package outweigh their benefits?

BUSINESS INCENTIVE ASSESSMENT ANALYSIS

Business incentive assessment analysis is an analytical approach used to assess the measurable public cost and benefits generated from an economic development project or policy over a specified time period. The analysis is typically used in calculating the costs of extending business and tax incentives or changes in the tax law to expand the size and the scope of economic development.

Since the early 1980s, many states have gone from having almost no capacity for impact analysis of incentive packages to new levels of sophistication, primarily through the use of microsimulation models. By linking tax models for example, with a regional economic model, economic development policy-makers can assess the impact of tax law changes and incentive programs on the state's economy and calculate the subsequent effects on tax revenues.

The new models can answer questions such as:

+ How competitive is a state with surrounding states, and what changes in the incentive and tax structure make the state more likely to attract new businesses?
+ Will changes in the tax law, such as increasing or adding an investment tax credit, result in stimulating a state's economy?

According to Hudder (1993), recent progress in computer processing power and database development has provided the following improvements in the capabilities of these models in the following areas:

+ extensions to taxes other than income taxes,
+ linkage in the models between various taxes
+ dynamic rather than static analyses of the interactions and impacts, and
+ impact of tax policies on the state economy.

Rasmussen et al. (1984) proposed a method for evaluating incentive packages. This model compares the value of an incentive to a firm with the cost to government of providing that incentive. The resulting cost-to-government/value to firm ratio is used to rank incentives. Calculation of such ratios for alternative incentives would permit policy-makers to determine which was the most efficient use of government resources. The model incorporates such costs as the loss of tax benefits or whether the firm would have been eligible absent the incentive.

However, mere use of cost per job or private investment to public expenditure ratios poses several problems: (1) data are subject to manipulation through different definitions of public costs and use of different employment levels, (2) Ratios do not determine the cost versus the benefits but only compare projects, (3) the use of inaccurate multipliers to calculate spin-off jobs.

While some states claim they genuinely want to study the effectiveness of their incentive packages, there is growing skepticism whether the incentives are worth the cost. Critics say that many incentive programs amount to little more than corporate giveaways, as companies successfully pit one state or one locality against another. And even worse, many incentives favor new companies over those that have already invested and located in the area (Philips, 1997). Advocates of economic development incentives maintain that these programs are critical factors in attracting jobs to areas that need them, and insist that there will always be an appropriate role for economic incentives in attracting business, even for such indirect incentives as infrastructure for better roads, sewers, airports, and transportation systems. The regions that spent the most on infrastructure as a percentage of personal income, such as the Mountain, Midwest, and Southern states, in contrast to the Pacific, New England, and Middle Atlantic states, reaped the biggest rewards in new job growth in the 1990s, because once companies are satisfied their business needs are met, they often turn to "livability" issues (Bleakley, 1997.) Exhibit 1 presents the potential benefits and costs that should be considered in the analysis of a business tax benefit package.

STATES AND COST-BENEFIT MODELS OF BUSINESS INCENTIVE ASSESSMENT

Only six states report that they even attempt to estimate, whether on an *ad hoc* basis or using an economic modeling methodology of some sort, the economic impacts of economic development policy changes. Of these, half do it only on an occasional or upon-request basis (Vasche & Nguyen, 1994), while the states of California, Massachusetts, and New York are the only states that maintain sophisticated models for the evaluation of economic incentive programs. A contrasting description of two different cost benefit approaches of economic development incentives follows below.

Massachusetts has a fully operational integrated model. The Massachusetts model is composed of modules dealing with personal income, corporate business, non-corporate business, sales and use taxes, public utility, bank, insurance, estate and property taxes, as well as tax incidence on the Massachusetts' economy. The user specifies a set of economic assumptions, a time frame for analysis, and alternative tax structures. The tax simulation modules yield results that are fed into the economic module. The model appears to be working well in Massachusetts, yielding valuable insights regarding tax policy initiatives, and played a role recently in Massachusetts. raising the investment tax credit from 1 to 3 percent. Massachusetts operates its microsimulation model on a 80486 personal computer with a 1 gigabyte hard drive. A full run of the model may take only two to three hours compared, for example, to New York's COBOL based model which is processed on a mainframe overnight. The Massachusetts model operates in a user-friendly "Windows" environment which also allows analysts to be trained to operate the model very quickly resulting in a more rapid turnaround.

Exhibit 1: Methodology for Estimating Costs and Benefits for Incentive Packages

POTENTIAL COST ELEMENTS	POTENTIAL BENEFIT ELEMENTS
Costs Associated with Development	Benefits Associated with Development
"Hard Costs"	Construction Materials
Acquisitions	Construction Employment
Construction	Tax Revenues
Furniture, Fixtures, and Equipment	Benefits Associated with Operations
"Soft Costs"	Employment Income
Predevelopment Costs	Materials Purchases
Special Government Services	Tax Revenues
Financing	Benefits Associated with Employees
Waived Fees and Permits	Benefits : New Resident Employees
Costs Associated with Operations	Benefits : Existing Resident Employees
Tax Abatement	Benefits : Non-resident Employees
Special Support Services	Indirect Economic Benefits
General and Special Government Services	Economic and Income Multiplier Effects
Costs Associated with Employees	Tax Benefits
Costs for New Resident Employees	Benefits from Visitor Impacts
Costs for Existing Resident Employees	Visitor Direct Expenditures
Costs for Non-resident Employees	Visitor Indirect and Induced Effects
Costs from Visitor Impacts	
Strain from Peak Demand for Goods/Services	
Costs for added Government Services	
TOTAL COSTS ASSOCIATED WITH NEW DEVELOPMENT	TOTAL BENEFITS ASSOCIATED WITH NEW DEVELOPMENT

In contrast, the state of Oregon, instead of using a formal cost-benefit analysis, is using some kind of benchmarking to evaluate business incentive packages. Benchmarking focuses on results and outcomes rather than input activities such as dollars. Oregon in 1991 was the first state to use the benchmarking method of economic development policy performance evaluation and since then, it has spread to many other state and local governments. Benchmarking forces the state or local government to focus on what it wishes to become, as well as directing progress toward long-range strategic goals that are constantly monitored. If, for example, a state wishes to achieve an optimum growth rate for its workforce, it can monitor how an economic development incentive package contributes toward that goal by having progress toward meeting that goal benchmarked. It is quite obvious however, that the benchmarking approach cannot compare the cost and benefits of competing packages.

AD HOC COST BENEFIT ANALYSES

Much of the research on incentives has evaluated their impacts on job creation by focusing on the cost per job. However, as demonstrated by Willis (1985), the researcher must account for jobs that would have been created irrespective of the incentive package. Some specific examples of such ad hoc cost benefit analysis is presented below.

Bachelor (1991), reported that even though the state of Michigan's economic model had projected a positive benefit-to-cost ratio by having Mazda Motor Company build a plant in the state, she found that the benefits accruing to the city of Flat Rock were less clear than those accruing to the state of Michigan. She concluded that "The absence of spin-off development, the continuing presence of the tax abatement and the small number of residents employed at the plant yield a somewhat negative outlook." Policy formulation for the Mazda project was guided by projections of absolute costs and benefits, without undertaking a relative comparison to other projects, or its overall net impact, i.e. the positive state impacts vs. the negative local impacts.

Milward et al. (1986) evaluated the impacts of the Toyota plant on Kentucky's economy. Using Regional Input-Output Modeling System (RIMS II), they estimated that at full capacity production, the state's investment of $325.4 million and Toyota's $800 million would result in an additional $3,792.16 million in output and $768.48 million in earnings annually and 35,520 jobs. He calculated an internal rate of return of 25% to the state of Kentucky.

Fox (1990) assessed the economic effects of the Nissan decision to locate a facility in Rutherford County, Tennessee. He concluded that " Rutherford County's growth rates has been good relative to other counties, but has not been "spectacular" and does not appear to have accelerated in the intervening years since Nissan's location" (ibid, p. 186.) Fox concluded that because of the subsequent expansion of the facility, the chances are high that the incentive package was a good investment after all. Overall, the per job cost of the Nissan economic development initiative for the State of Tennessee was $11,000 per job, compared with $14,000 for the Mazda plant in Michigan, $50,000 for the Toyota plant in Kentucky. More recently however, the per job cost of economic development initiatives has skyrocketed, with the 1992 $130 million package that the state of South Carolina offered to BMW to build a plant there, and the mammoth $250 million that Alabama offered Mercedes in 1994 for a plant outside of Tuscaloosa.

A STATE ECONOMIC DEVELOPMENT PERFORMANCE SURVEY

Critics of the runaway economic development packages contend that these programs amount to "corporate welfare" and giveaways. Even more indicting is the accusation that economic development incentive packages favor new companies over firms that already have invested in the state.

Economic development performance measurement is really a novel idea. As recently as 1990, the Urban Institute reported that efforts and experimentation with state economic development measurements were "sporadic, insufficiently comprehensive, unsystematic, or unreliable." (Southern Growth Update, 1995, p.3) Even so, states are beginning to take a more critical view of their incentive packages and are attempting to upgrade their efforts in the assessment of the performance of their economic development programs.

In order to gauge current efforts by the states in the use of cost-benefit analysis of their economic development and business incentive packages, a structured telephone survey of all fifty states, Puerto Rico and the Virgin Islands was conducted. This telephone survey was undertaken in 1996 by the South Carolina World Trade Center in Charleston, South Carolina over a period of two months. A copy of the survey form is presented in Exhibit 2.

Responses were obtained from thirty-seven states along with responses from Puerto Rico and the Virgin Islands, for a total of thirty-nine responses.. Respondents were self-identified top executives or managers of the economic development agencies of the thirty seven states or the two territories, they indicated that they were in charge of economic development incentive assessment analysis, or referred the interviewer to an official in their respective state that was responsible for such an analysis who did answer the survey's questions.

Exhibit 2: 1995 Survey of State Business Incentive Programs

Date _______ State _____ Contact Person ______________________________________

1. Does your state use a systematic model to evaluate economic development incentives granted to individual businesses locating in your state? _________Yes _______No _________Don't Know

If answer to Question #1 is yes, please answer Questions 2-6. If answer to #1 is "No" or "Don't Know," this completes the survey. Thank You.

2. Which best describes the model?
Sensitivity Analysis____ Cost/Benefit Analysis____ Input-Output Analysis____ None of These____ Don't Know____

3. Does the Model:

	Yes	No	Don't Know		Yes	No	Don't Know
Consider spillover impacts on firms already resident?				Treat firms from outside the state differently from resident firms?			
Incorporate the risk of the business failing?				Consider the size of capital investment?			
Consider the number of jobs and type of business?				Use multipliers to measure impacts?			
Consider whether firm will hire in-state workers or out-of-state workers?				Rank projects or packages to choose the one with the most impact?			
Consider spillover affects of additional firms that may move to region due to incentive?				Include consideration of indirect costs such as highway construction, water and sewer infrastructure, public schools, etc.?			
Consider environmental concerns?							

4. Does the model focus on growth of jobs, tax revenues, or earnings? Yes___ No___

5. Is a new model developed for each situation or incentive package? Yes___ No___

6. Who administers the analysis? (check all that apply)
Economic Development Agency____ Other Division of Executive Branch_____
Division of Legislative Branch____ Private Consulting Firm_______
Other Public Agency Such As University______________

Officials from the remaining thirteen states stated that they did not have sufficient information from their state economic development "models" to respond to the survey, i.e. they were not sure whether their respective state did indeed undertake a cost-benefit analysis of their economic development incentive program or not. Exhibit 3 shows the participating states.

The respondents from the sixteen states indicating that they regularly undertake cost -benefit analysis of their economic development incentive programs, were further asked to identify the factors used in their respective state's cost-benefit analysis of economic development and business incentive packages, such as, spillover impact consideration on firms already residing in the state, the incorporation of business failure, the number and types of jobs created, the hiring of in-state or out-of-state workers, whether additional firms may move into the region as a result of the incentives, environmental concerns, whether the state treats firms from outside differently, the size of the capital investment, the use of multipliers to measure impacts, the ranking of projects and/or incentive packages, and finally, the consideration of indirect costs. A summary of the factors that these sixteen states use in their business incentive analytical methodology is presented in Exhibit 4.

Exhibit 3: States and Territories Responding to the Survey			
States That Do Perform Cost-Benefit Analysis		States That Do Not Perform Cost-Benefit Analysis	
Arizona	Connecticut	Alabama	Colorado
Delaware	Illinois	Georgia	Iowa
Florida	Kentucky	Idaho	Kansas
Indiana	Louisiana	Maine	Maryland
Massachusetts	Minnesota	Mississippi	Missouri
Nebraska	North Carolina	Montana	Nevada
North Dakota	Oklahoma	New Jersey	Ohio
South Carolina	Virginia	Oregon	Rhode Island
		South Dakota	Tennessee
		Texas	Vermont
		West Virginia	Puerto Rico
		Virgin Islands	

Exhibit 4: Factors Incorporated Into Cost-Benefit Analysis of States Using Some Business Incentive Analytical Methodology			
FACTOR	Percent Yes	Percent No	Percent Don't Know
1. Methodology Incorporates Spillover Impacts	69%	31%	
2. Incorporates the Risk of Business Failing	31%	57%	12%
3. Considers the Number & Type of Jobs	94%	6%	
4. Considers Whether the Firm will Hire State Residents	63%	25%	12%
5. Considers Environmental Impacts	50%	38%	12%
6. Treats Resident Firms the Same as Non-Resident Firms	69%	31%	
7. Considers the Size of Capital Investment	88%	6%	6%
8. Uses Multipliers to Estimate Benefits	63%	37%	
9. Methodology Ranks Projects	50%	44%	6%
10. Methodology Considers Indirect Costs	63%	31%	6%

DISCUSSION AND CONCLUSIONS

The results presented above constitute a clarification of the differing perceptions and needs of the various states regarding the importance, from their perspective, of each analytical factor in their cost-benefit analysis of their economic development incentive packages. These findings are important from both the perspective of theory and practice in economic development. From a theoretical perspective, the results suggest that a contingency theory of economic development incentive packages is necessary to capture the complexity of different needs of different states. Just as in organization theory or strategic management theory, it appears that no single normative theory adequately describes the range of strategies, needs, and values of today's state "organizations," especially when it comes to what <u>really</u> matters in attempting to attract business investment.

From a practical economic development perspective, the most striking finding overall is the fact that fifty seven percent of the states that use some business incentive analytical methodology do not incorporate into their analysis the risk of the "courted" business failing some time in the future, while another twelve percent do not know whether they do consider in their analysis the risk of failure or not! Classic wisdom suggests that smaller, newer firms, for instance, may be stronger candidates for failure than older, larger firms. Firms of different ages or sizes may embrace transportation networks, tax holidays, training grants, incentive "giveaways" and overall business climate considerations differently in the location decision. For the state development managers of the states that that do not incorporate the risk of business failure into their cost-benefit analysis, "all firms are created equal."

Firm size is however, a useful indicator of the different emphasis that the states place on their economic development package cost-benefit analysis. A full ninety four percent of the states undertaking cost-benefit analysis indicated that they consider the number of the jobs created, as well as the type of jobs, even though it is widely documented that smaller firms are responsible for most job creation over time. Similarly, eighty nine percent of the responding states indicated that the size of capital investment was a very important factor in their cost-benefit analysis, underscoring the traditional bias of development planners toward providing major incentives predominantly to large investors. However, larger firms may have vertical supply markets, outside of the state or region, and may ship their profits to other states and regions creating "leakages," while smaller firms with smaller initial capital investments may be more localized in their supply purchases and profit distribution, thus benefiting the state or region more.

These results underscore the need to consider simultaneously economic development incentives that are components of the "least-cost" type and "amenity/sociotechnical infrastructure" type in regards to business location. Efforts of new business recruitment and existing business development must be targeted in specific ways, and in a contingency approach, depending on the age and size of the businesses involved. Local and state economic development planners need to concentrate on the provision of a wide range of interrelated services in order to have the greatest impact. While tax incentives and "low-cost" schemes were, and still are, the traditional keys in the entrepreneurial state game of economic development, the results of this survey presented here, bring into question the effectiveness of many of these policies and programs, in the absence of a sophisticated and contingency oriented cost-benefit assessment of these incentive packages. Knowing these contingency differences and the overall degree of emphasis placed on each of the factors and dimensions incorporated in an economic development package, can assist economic development officials to target more accurately those incentives toward what is more likely to be emphasized and valued by various firms of different age, size, and type.

Yet, a more significant issue in the assessment of the economic development packages may be, beyond what firms want now for their location in the state or region, how firms actually will use the location. In other words, it may be more beneficial for the state, to consider the connections that firms, whether large or small, will establish with the local economy through the network of input and output linkages, rather than savings on the up-front costs of satisfying the firm's demands to locate in the state. In our survey, more than a third of the responding states did not consider the effect of multipliers to estimate the benefits of these linkages to the state. If a categorization of targeted industries in terms of linkage effects is made, apart of other criteria, development planners could aim for organizations that are most likely to create regional multiplier effects, and thus develop the necessary incentives to encourage these organizations to enter the area. The connection between how firms use their location (i.e. the input and output linkage network) and what they want in their location (i.e. the factors of least-cost and amenities that constitute state or regional economic development incentives), can be accurately assessed only when the relationships between sourcing, job creation, exporting, growth, and profitability are understood, and the cost of incentives that satisfy the firm's initial location preferences are balanced with the benefits of the firm's future location use. Only then, a genuine assessment of the effectiveness and efficiency of the state's economic development efforts devoted to attracting, screening, and prioritizing new and established industries to an area, really takes place.

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THE BUSINESS PLAN AS BLUEPRINT FOR FREE ENTERPRISE EDUCATION

Thomas G. Wier, Alabama State University
tweir@asunet.alasu.edu

ABSTRACT

The form and content of the business plan provides an excellent framework for teaching free enterprise to students in a class room setting. The knowledge of business plans also creates an environment for students to go beyond the classroom into community service. This paper is a plan for SIFE courses as well as a description of a program launched this year by a joint venture between the Alabama State University SIFE team and the Montgomery Chamber of Commerce Minority Business Outreach project. The paper describes the business plan, a course in entrepreneurship based on the business plan, and a program of application of this information to existing businesses in the community of hands-on service learning.