Volume 10, Number 1 *2004*

Allied Academies International Conference

New Orleans, Louisiana
April 7-10, 2004

Academy of Entrepreneurship

PROCEEDINGS

Volume 10, Number 1 *2004*

Table of Contents

SHOW ME THE MONEY: CONNECTING INNER CITY
BUSINESSES & ENTREPRENEURS WITH CAPITAL 1
Donna Addkison, University of New Orleans
Kenneth J. Lacho, University of New Orleans
Roy Alston, Xavier University

STRUGGLES OF FEMALE ENTREPRENEURS 3
Jennifer Affholder, Pittsburg State University
Thomas M. Box, Pittsburg State University

A LONGITUDINAL STUDY OF THE
ENTREPRENEURIAL INTENTIONS OF
UNIVERSITY STUDENTS 9
Josée Audet, Université Laval

CRITICAL MANAGEMENT ISSUES
IN SMALL BUSINESSES 11
Barbara Dalby, University of Mary Hardin-Baylor
Patrick Jaska, University of Mary Hardin-Baylor

LEGAL READINESS IN SMALL FIRMS:
A THEORETICAL FRAMEWORK 17
Kirk C. Heriot, Western Kentucky University
Robert D. Hatfield, Western Kentucky University

COST EFFECTIVE MANAGEMENT OF ACCOUNTS
PAYABLE FOR A SMALL BUSINESS 23
Rodger G. Holland, Georgia College & State University
Kathleen A. Kaminski, Georgia College & State University

EXECUTIVE COMPENSATION: HOW MUCH IS
ENOUGH? AN IN DEPTH LOOK AT THE RISING
COST OF EXECUTIVE COMPENSATION COMPARED
TO THE PERFORMANCE OF THE FIRM 29
Taylor Klett, Sam Houston State University
Balasundram Maniam, Sam Houston State University
Rhonda Strack, Sam Houston State University

MAXIMIZING THE HARVEST BY CHANGING TO A C-CORPORATION FROM A LIMITED LIABILITY COMPANY WHEN SELLING TO NEW OWNERS 31
Frank S. Lockwood, Western Carolina University
Roger Lirely, Western Carolina University
Steven W. Young, Western Carolina University

BUSINESS ETHICS FOR UNSEASONED ENTREPRENEURS: TRENDS AND CONCERNS FOR PROFESSIONALS AND STAKEHOLDERS 33
Michael W. Boyd, University of Tennessee at Martin

OFFSHORE OUTSOURCING FOR ENTREPRENEURS: CHALLENGES AND REWARDS 37
Ron Cheek, University of Louisiana at Lafayette
Michelle B. Kunz, Morehead State University
Kathy Hsu, University of Louisiana at Lafayette

THE ENTREPRENEURIAL CONTINUUM: A NEW PRESCRIPTION FOR FUTURE STUDIES 39
William T. Jackson, University of Texas of the Permian Basin
Mary Jo Vaughan, Mercer University

A STUDY OF RURAL SMALL BUSINESS OWNERS' INTERNET USAGE 41
Sherry Robinson, Penn State University

AN INVESTIGATION OF SOCIOLOGICAL INFLUENCES ON THE RELATIONSHIPS BETWEEN PSYCHOLOGICAL TRAITS AND ENTREPRENEURIAL ORIENTATION OF USED CAR ENTREPRENEURS 47
J. R. Smith, Jackson State University
Donatus A. Okhomina, Sr., Alabama State University
Alisa L. Mosley, Jackson State University

OBSTACLES AND SUCCESSES OF IRANIAN ENTREPRENEURS IN THE UNITED STATES 49
Keramat Poorsoltan, Frostburg State University

Authors' Index 55

SHOW ME THE MONEY: CONNECTING INNER CITY BUSINESSES & ENTREPRENEURS WITH CAPITAL

Donna Addkison, University of New Orleans
daddkison@cox.net
Kenneth J. Lacho, University of New Orleans
kjlacho@uno.edu
Roy Alston, Xavier University
Ralston@xula.edu

ABSTRACT

A web of non-profit institutions designed to target capital where capital is needed most has expanded with limited attention from the finance sector, the media, or practitioners of economic development. Yet, the Community Development Financial Institutions (CDFI) have created a link between affordable capital and a multitude of needs, housing and economic development more particularly. This paper will capture some of the history of the development of the CDFI industry. By focusing on the expansion of the Mid-South's leading CDFI from a rural player to a participant in the revitalization of inner cities, the authors will map the importance of CDFIs to the commercial revitalization of urban areas as well as offer recommendations to potential or actual entrepreneurs who may benefit from this unique source of development capital.

As the United States moves through a jobless economic recovery, the question continues to be asked, "From whence will new jobs appear?" The answer remains the same regardless of the descriptors used to frame a current snapshot of the American economy. If you build small businesses, jobs will come. The United States Chamber of Commerce suggests that minority-owned businesses are growing four times faster than the national average, generating $591 billion in annual revenues.

Building small businesses requires access to capital and expertise. The Community Development Financial Institution industry as we now know it did not develop until the 1960's and 1970's. Beginning with the War on Poverty, the industry grew slowly, experiencing exponential growth and attention during the 1990's. To this day many are still providing access to capital and expertise that otherwise would be unavailable to low or moderate-wealth entrepreneurs and small business owners.

Even with this growth spurt and the successful track records of many CDFIs, information about this private-sector, non-profit source of commercial capital remains sparse. Clearly the need for commercial finance services is not diminishing, making it imperative that practitioners and academicians more actively engage in an exchange of information about these resources with those seeking to stretch their entrepreneurial wings.

STRUGGLES OF FEMALE ENTREPRENEURS

Jennifer Affholder, Pittsburg State University
jaffholder@hotmail.com
Thomas M. Box, Pittsburg State University
tbox@pittststae.edu

ABSTRACT

This paper is a review article that highlights some the key differences between male and female entrepreneurs and also examines the struggles that female entrepreneurs have encountered over the past several decades. A critical evaluation of the literature revealed that female entrepreneurs often have similar reasons for starting their own businesses, including issues related to the glass ceiling and balancing family and work. While the obstacles for female entrepreneurs have diminished over the past decade, women still experience challenges in attaining vital information, training and financing for their entrepreneurial ventures.

INTRODUCTION

Much has been written in business and finance literature regarding the growing number of women in the United States labor force over the past several decades. Consistent with this growth, female entrepreneurship is also expanding, and as a group, they are having a growing impact on the economy (Anonymous, 1995). According to a 1993 report by the U.S. Small Business Administration, the number of women-owned firms increased 57% in the years between 1977 and 1987 and nearly doubled during the last five of those years (Matthews and Moser, 1996). By 1998, women-owned businesses were one of the fastest growing segments of the economy with sales increasing 209% in the last decade according to a report released by the Small Business Administration's Office of Advocacy, (Winsor and Ensher, 2000).

It is important to recognize that although they have enjoyed a significant growth in numbers and influence, female-owned business are still the minority among all entrepreneurial ventures, with one-third of all new firms in the United States being founded by women (Birley, 1989). Like most pioneering groups, the growth of female entrepreneurial ventures over the past several decades has not been achieved without struggles. A review of literature reveals that female entrepreneurs do have some characteristics that are unique in comparison to their male counterparts and that they have faced significant challenges in their efforts to find their place in the business community.

A COMPARISON OF MALE AND FEMALE ENTREPRENEURS

A review of literature illustrates the similarities and differences in the characteristics of female entrepreneurs as compared to their male counterparts. An understanding of these similarities and differences is beneficial in analyzing the struggles that women have faced as they move into this once male-dominated business arena.

Results of several studies led researchers to conclude that the primary similarity between male and female entrepreneurs could be found in their motivation for starting their own businesses. These similarities included a desire for financial security, a need for autonomy, and a response to the identification of profitable business opportunities (Anonymous, 1995; Birley, 1989). Beyond the similarities in general motivation, there seems to be little agreement among researchers regarding the similarities in personality and personal attributes among female and male entrepreneurs. The literature does give evidence of many differences in experiential background, perception of success and management style.

The research on personality seems to have conflicting results, some researchers finding no significant differences between male and female entrepreneurs and others identifying specific personality differences. Whether or not differences were found in a study appears to be a product of the personality or attributes being targeted by the study. Chaganti found no differences between male and female entrepreneurs regarding achievement motivation, autonomy, persistence, aggression, independence, non-conformity, goal-orientation, leadership, or locus of control (cited in Birley, 1989). However, Chaganti did find that women demonstrated a lower self-confidence than men. Looking at a different set of personality traits, Vinnicombe found that female entrepreneurs tended to be visionaries and catalysts, whereas male entrepreneurs tended to be more traditionalists (cited in Birley, 1989). She concluded that this difference might help to explain the problems women encounter with the "organizational rigidity" of the corporate world and she suggested that women may start their own businesses in an effort to cope with the conflict between their personalities and corporate business processes.

In terms of personal attributes, two studies found that women were usually either only children or the oldest daughters in a family where at least one parent was an entrepreneur (Anonymous, 1995; Matthews and Moser, 1996). An inconsistency was discovered within the research comparing male and female entrepreneurs. Birley, Moss, and Saunders from West Virginia University found that female entrepreneurs were younger than male entrepreneurs (1989). However, Mathews and Moser stated in the Journal of Small Business Management that women tend to be a little older than men when they start their first entrepreneurial venture.

Differences are evident in the research looking at background experiences. Female entrepreneurs, according to Shaw, tend to have less managerial experience than their male counterparts (2001). In fact, Birley found that most women gained their first managerial experience in their own businesses (1989). No discussion of non-managerial experience was found in the research. Birley found that female entrepreneurs tend to open businesses in the service industry, an industry that actually accounts for 65.7% of all female employment in the United States. This finding begs the question of whether general experience in non-managerial role does influence the industry chosen by female entrepreneurs. Women also believe that their "energy, hard work and determination play a more important part in business success than commercial skills," (Anonymous, 1995).

The literature indicates that female entrepreneurs tend to perceive success differently than male entrepreneurs. Male entrepreneurs tend to evaluate success based on revenues and sales forecasts, an emphasis that may, according to conclusions drawn by Garcia, explain why male-owned firms earn 70% more in annual revenues (1999). Female entrepreneurs tend to place more of an emphasis on the balance of important life factors in measuring success, according to a study by Vermond (2000). As an example of this perspective, Vermond quoted an interview with a female entrepreneur. "If I work three and a half days a week and I make three quarters of what a man makes, but it allows me to do all these other things in my life that are important to me, am I being more successful or less successful?"

The research gives evidence that male and female entrepreneurs tend to have very different management styles, a finding that is logical in light of their differences in personality, experiential background, and perception of success. Men tend to have a more directive management style, while women use a more collaborative approach to leadership. In general, women employers understand the conflicting demands on their employees time and energy, and the employees' need to balance work with family and personal interests (Verheul, Risseeuw and Barlelse, 2002). Professor Cary Cooper at the University of Manchester believes the tendencies for women to be more understanding and flexible is what makes them so good at running their own businesses. (Cooper, cited in Anonymous, 1995).

The review of literature did; however, show that women who start businesses in more nontraditional female fields tend to think more like their male counterparts and they tend to have higher profits. These women tend to open businesses in industries that include: transportation, construction and development, communications, manufacturing, aerospace, wholesale distribution, finance, high technology, and entertainment. These women are 26% more likely to develop global markets than women in traditionally female fields, and 64% more likely to export products into foreign markets. This category of female entrepreneurs is also more likely to build larger more corporate organizations that make 38% more gross sales than other female entrepreneurs. Also, these women are more likely to seek bank financing, and were 17% more likely to increase the amount of investment they had in their companies (Allen, 1996).

Several cautions regarding sampling procedures must be taken into consideration in drawing conclusions from the research. One source stated that most studies of female and male entrepreneurs used small convenience populations rather than random samplings, (Birley, 1989). Another source stated that there could be problems due to the smaller number of female entrepreneurs in comparison to the number of male entrepreneurs included in the study population. Kolvereid, Shane and Westhead stated that the sample would have to be fairly large in order to make accurate comparisons between genders, (1993). A third possible problem lies in the retrospective nature of survey or interview research. Because it depends on a subject's memory and retrospection, the subject may artificially clarify or change the description of the actual process. Very little empirical research has been conducted to serve as a point of reference (Matthews and Moser, 1996).

BALANCING WORK AND FAMILY

The literature review reveals that female entrepreneurs often choose their careers to accommodate the amount of time they have to devote to their families (Matthews and Moser, 1996; Vermond, 2000; Winsor and Ensher, 2000). Parenthood was shown to have a greater influence on a woman's decision to start her own business than simply being married (Birley, 1989). A major struggle for women, identified by Vermond, was realizing that they cannot "do it all." Vermond advised women to bring in outside help to assist with the workload both at work and for domestic tasks (2000). Patricia Thornton president of Change Resources Group described the challenge of juggling work and family, stating, "sometimes it feels like a juggling act and the balls are in the air and everything is in perfect rhythm - and then one ball drops and you feel that everything has fallen. So you have to pick them all up and start juggling again," (as cited in Vermond, 2000).

GLASS CEILING

According to professional journals and the general news media, women in the corporate world have struggled against the glass ceiling for many years. This concept in the corporate world relates to gender discrimination in wages and opportunities for advancement (Lynch and Post, 1996). According to Matthews and Moser, many women who leave the corporate world to become entrepreneurs do so in an attempt to escape such discrimination (1996). Female entrepreneurs in non-traditional fields say that entrepreneurship has given them a way to set aside the issue of gender bias entirely and compete on an equal footing with men in their industries (Allen, 1996). In general, the literature summarized in this review indicated that the glass ceiling as it applies to entrepreneurs has more to do with individual choices than discrimination. The one exception to this generalization relates to venture funding which is discussed later in this review.

INFORMATIONAL NEEDS

Women who become female entrepreneurs typically have degrees in subjects other than business, and usually do not have experience in managerial positions. This gap in business knowledge and experience creates a major struggle for female entrepreneurs especially during start-up time when all entrepreneurs try to gather as much pertinent information as possible (Nelson, 1987). These women have trouble trying to acquire necessary training in fields that would help them develop their businesses, according to Kolvereid, Shane and Westhead (1993). A recent study of women entrepreneurs found that they desired training in "internet business, growth and expansion, global opportunities, marketing strategies, corporate procurement, sources of financing, motivating employees, management, cash flow management, efficient and effective operations, computers and technology, video conferencing, finding good employees, and health insurance," (Lownes-Jackson, 1999).

FUNDING AND RESOURCES

The largest challenge for female entrepreneurs has to do with acquisition of financing and resources. There is some variation on the exact percent of all venture capital funding received by female entrepreneurs. The figures cited in the research vary between less than five percent to about seven percent of all funds spent by venture capitalists (Solos, 2002; Webb 2003). Commercial banks also do not have a good track record when it comes to supporting female entrepreneurial ventures, according to an article by Vermond. Until the entrepreneur develops a long-standing relationship with their bankers, they experience situations in which they have difficulty borrowing money. As an example, Vermond stated that it is not uncommon for a female entrepreneur to be told that her husband must cosign any bank loan (2000).

There are several explanations for why female entrepreneurs have difficulties finding sources of capital. A representative from the Forum for Women Entrepreneurs states that one problem is that women do not understand the process of obtaining funding. Women tend to be more emotionally involved in their ideas and do not focus enough on the possible revenues. They also do not understand how much research they need to do about their chosen markets to be able to answer questions of investors (Webb, 2003). Another problem is that credit-scoring mechanisms tend to discriminate against women based on an overall trend for female credit records to be fragmented (Shaw, 2001).

In an attempt to overcome these struggles a group of women investors has chosen to come together and support their fellow female entrepreneurs. These women are part of a group called womenangels.net. They are the only company of their kind located within the United States, and they strive to encourage female entrepreneurial ventures and to promote "women as serious, qualified and active members of the angel community," (Shaw, 2001; womenangels.net, 2003).

CONCLUSION

This review found evidence that female entrepreneurs do bring different qualities to the business arena and through perseverance and hard work they are overcoming many of the challenges they have faced. The literature is consistent in the view that women are making significant progress in the entrepreneurial field, and they are making a significant impact on the U.S. economy. Longitudinal studies indicated that the hardships facing new female entrepreneurs today are less restrictive than those faced by their pioneering predecessors of past decades. Although some of the researchers argued that female entrepreneurs still struggle more than their male counterparts, the research results were inconclusive on this question as it relates to all aspects of entrepreneurship. However, the literature does consistently report that female entrepreneurs still meet heavy opposition when it comes to obtaining financing. Future research should be targeted toward reconciling inconsistencies in determining similarities and differences of male and female entrepreneurs in regards to personality and personal attributes.

REFERENCES

Allen, K. (1996). What women want; when it comes to building world-class, high-growth companies, men and women aren't so different. *Inc. 18*(12), 27. Retrieved October 25, 2003, from http://library.pittstate.edu:2058/WebZ/FSFETCH…

Anonymous (1995). The key to female entrepreneurial success - born not made - new research claims. *Women In Management Review, 10*(4), 33. Retrieved October 25, 2003, from http://library.pittstate.edu:2058/WebZ/FTFETCH?sessionid…

Birley, S. (1989). Female entrepreneurs: are they really any different? *Journal of Small Business Management 27*(1), 32. Retrieved October 25, 2003, from http://library.pittstate.edu:2084/itw/infomark…

Buttner, E. H. (2001) Examining female entrepreneurs' management style: An application of a relational frame. *Journal of Business Ethics 29*(3), 253-269. Retrieved October 25, 2003, from http://library.pittstate.edu:2058/WebZ/FSPage?pagename…

Garcia, E. (1999). New York-area female entrepreneurs enter fields once dominated by men. *Knight Ridder/Tribune Business News*. Retrieved October 25, 2003, from http://library.pittstate.edu:2084/itw/infomark…

Kolvereid, L. & Shane, S. & Westhead, P. (1993) *Journal of Small Business Management 31*(4,) 42. Retrieved October 25, 2003, from http://library.pittstate.edu:2084/itw/infomark…

Lownes-Jackson, M. (1999). Training and educational needs of African American female entrepreneurs. *International Advances in Economic Research 5*(3), 399. Retrieved October 25, 2003, from http://library.pittstate.edu:2084/itw/infomark…

Lynch, M. & Post, K. (1996). What glass ceiling? *Public Interest 124,* 27-36. Retrieved October 25, 2003, from http://library.pittstate.edu:2058/WebZ/FTFETCH...

Mathews, C. & Moser, S. (1996). A longitudinal investigation of the impact of family background and gender on interest in small firm ownership. *Journal of Small Business Management 34*(2), 29-43. Retrieved October 25, 2003, from http://library.pittstate.edu:2058/WebZ/FTFETCH…

Nelson, G. (1987). Information needs of female entrepreneurs. *Journal of Small Business Management 25*, 38. Retrieved October 25, 2003, from http://library.pittstate.edu:2084/itw/infomark…

Shaw, E. (2001). Give women a chance: viewpoint Eleanor Shaw. *The Financial Times*, 16. Retrieved October 25, 2003, from http://library.pittstate.edu:2084/itw/infomark…

Solis, D. (2002). Dallas-area female entrepreneurs discover springboard to venture capital. *Knight Ridder/Tribune Business News*. Retrieved October 25, 2003, from http://library.pittstate.edu:2084/itw/infomark…

Verheul, I. Risseeuw, P. & Bartelse, G. (2002). Gender differences in strategy and human resource management. *International Small Business Journal 20*(4), 443-476. Retrieved October 25, 2003, from http://library.pittstate.edu:2058/WebZ/FSPage…

Vermond, K. (2000). Making the jump. *CMA Management 74*(3), 18-24. Retrieved October 25, 2003, from http://library.pittstate.edu:2058/WebZ/FSPage…

Webb, M. (2003). FEW provides tools to help female entrepreneurs. *San Diego Business Journal 24*(35), 5. Retrieved October 25, 2003, from http://library.pittstate.edu:2084/itw/infomark…

Winsor, R.D. & Ensher, E. (2000). Choices made in balancing work and family: following two women on a 16-year journey. *Journal of Management Inquiry 9*(2), 218-231. Retrieved October 25, 2003, from http://library.pittstate.edu:2058/WebZ/FTFETCH…

A LONGITUDINAL STUDY OF THE ENTREPRENEURIAL INTENTIONS OF UNIVERSITY STUDENTS

Josée Audet, Université Laval
josee.audet@mng.ulaval.ca

ABSTRACT

This paper presents a longitudinal study of entrepreneurial intentions among university students enrolled in a business administration program. The theoretical model selected for this study is the Entrepreneurial Event developed by Shapero and Sokol (1982). According to this model venture creation is best explained by the intention to go into business, such intention being formed by perceptions of the feasibility and desirability of doing so. The sample consisted of 107 business students and data was collected twice: first during their last semester in school and then 18 months later, once they had graduated and started to work on a full-time basis. Results confirm that the perceptions of the desirability and feasibility of launching a business significantly explain the formation of an intention to go into business on a long term horizon. However, the model does not hold as well when the time frame is shorter. Indeed, both perceptions fail to explain to a significant degree the intention to go into business. When work satisfaction is added to the model, both this variable and perception of feasibility become significant predictors of short term intentions, perception of desirability remaining non significant. Our results also tend to indicate that entrepreneurial intentions and perceptions vary over time. As the temporal stability of intention is a condition for an intention-based model to accurately predict behavior, the link between entrepreneurial intentions and actual venture creation may prove difficult to establish. The main contribution of this study so far is to provide longitudinal measures of entrepreneurial intentions and perceptions. Data collected in the following phase of the study should provide more information about the temporal stability of variables.

CRITICAL MANAGEMENT ISSUES IN SMALL BUSINESSES

Barbara Dalby, University of Mary Hardin-Baylor
bdalby@umhb.edu
Patrick Jaska, University of Mary Hardin-Baylor
pjaska@umhb.edu

INTRODUCTION

Although both the popular press and the academic literature discuss the importance of the small company to the U.S. economy, the strategy books, business courses, and research remain centered on the large multinational firms. What are the issues that the leaders of small companies (less than 2000 employees) must solve? Are these leaders able to engage in long-term planning and business development? Are these companies concerned about the global market place and the need to effect change? Or, are these leaders working a day-at-time to keep the business going? This study is the beginning of an attempt to answer the central question of what are the issues that face the senior leaders of small companies.

The challenges that businesses face in the 21st Century range from the globalization of the market place to the digitization of technologies revolutionizing communication (Barkema, et al., 2000). Other major challenges range from outsourcing of core business processes to innovation and customer relations (Insinga, 2002; Gutek et al., 2002). The majority of the research on challenges and issues of the 21st Century has been on large corporations. This study takes a look at the issues managers of small to medium size companies are facing at the beginning of the new millennium.

In a recent research study in Canada, the top six issues facing business were competition, attracting new customers, access to capital/financing, growth (how to grow), recruiting new employees, and increasing costs (strategis.gs.ca, 2003). Are the issues the same in the U.S.? This research study was undertaken to examine the issues facing small to midsize companies in the US. Preliminary results indicate some agreement with Canadian findings. In this study, some of the issues identified were: growth, training and keeping good employees, change management, government regulations, and customer/vendor relations.

Large companies are looking at the strategic aspect of their business such as globalization, digitization, geographic dispersion of the value chain, more intense competition, outsourcing, faster decision making, and obsolescence/innovation (Barkema et al, 2002; Perlow et al., 2002; Katila, 2002; Agarwal & Sarkar, 2002). In contrast, small to midsize companies are concerned with more tactical decisions and issues, such as growth, retaining qualified employees, government regulations, cost containment, and customer relations. Taylor (1993) states "Small business practitioners seem to place greater importance on day to day operational issues such as Government Regulations, Finance & Substance Abuse. Professors (& large company executives) emphasize issues, which seem to have longer-term implications: Technology, International Competition & Turnaround. These differences may be based on the experience of running a business. That is, the more direct &

immediate the impact on routine operations of the business, the more important small business practitioners will consider the issue."

This paper is an exploratory study to identify the critical management issues in small to mid-size companies. Interviews were done with top executives from seven small to midsize companies to identify key issues facing top management at these companies. In the next section of the paper, we will review the literature in the area of management critical issues. The third section of the paper will contain a discussion of the executive interview process and the issues identified. The fourth section will contain a discussion of these issues. The final section of the paper will be a summary of findings and the next steps to be taken in the research process.

REVIEW OF LITERATURE

Research on issues facing senior executives tends to focus on the large firms, with little attention paid to small firms. The Conference Board each year releases a research report which discusses the top marketplace and management issues from Fortune 500 companies (Conference Board, 2003). While these issues which will be discussed later in this review, certainly impact the small firm, they do not directly address them. The literature also tends to look at the issues from a strategy perspective. For instance, Ireland et al (1999, p.44) states that "…strategic leadership may prove to be one of the most critical issues facing organizations." Also, a recent survey found that for firms the "ability to articulate a tangible vision, values & strategy for their firm was the most important of the 21 competencies considered to be crucial skills for global leaders to possess in the future" (Ibid., p. 47). This focus on strategy may be one reason that small firms are not part of the discussion.

According to the Conference Board's 2003 report, the top five CEO marketplace challenges include "lack of pricing power, changes in type of competition, industry consolidation, access to capital and regulatory issues" (Conference Board, 2003, p. 6). These issues are consistent with those discussed by Barkema, Baum and Mannix in which change is the central theme (2002). Both writings document globalization and technology as drivers of the changes that companies will experience. By 2008, the Conference Board report predicts that that the number one and two marketplace challenges to be "changes in type of competition" and "industry consolidation" (Conference Board, 2003, p. 6).

The findings of a 1998 survey of CEOs commissioned by the Foundation for the Malcolm Baldridge National Quality Award of 308 CEOs of companies with revenues of $100 million or more indicated six similar trends to be "major" by more than 70% of the CEOs surveyed. These include globalization (94%), improving knowledge management (88%), cost and cycle time reduction (79%), improving supply chains globally (78%), manufacturing at multiple locations in many countries (76%) and managing the use of more part-time, temporary and contract workers (71%).

The Conference Board goes on to list the top management issues as "customer retention, reducing costs, engaging employees in the company's vision/values/goals, improving product innovation and commercialization and developing and retaining potential leaders" (Ibid., p. 33). These issues are more in line with the issues from smaller businesses.

Ireland et al (1999) state that significant investments (training) in human capitol will be required to get meaningful competitive benefits and these investments are essential to the long term growth of the company. With respect to corporate communications in order to grow and succeed, 21st century leaders should commit to being open, honest and forthright in their interactions with all stakeholders, including organizational citizens (employees).

According to Taylor (1993) who studied a number of management issues in general management, government regulations, and changing workforce, there was disagreement between how academics and small business leaders viewed their importance. Small business practitioners placed emphasis on day-to-day operational issues such as communications and government regulatory compliance. Professors placed the most emphasis on longer term issues such as technology and international competition. However, as the size of the company grew, the difference in the importance of the issues grew closer together. In other words, executives of large companies were in agreement with their academic counterparts much more so than small business executives. The large business executives were not so concerned with day-to-day operations and could focus on longer-term issues.

Of the limited research on small businesses, a 1997 survey found that executives listed improving product and service quality as the two most important strategies (issues) to succeed and grow (Park, Krishnan, & Klekamp). Callaghan and Schnoll state that the key issue facing small businesses is limited resources, such as money, people and time. The shortage of key people means that each employee has many responsibilities and must function across a wide spectrum of functions for which they may not have expertise or time. Time is critical in that day-to-day operations become the drivers and major projects may not be accomplished as quickly as leaders would like (1997).

The literature shows that the issues reported are fairly consistent across surveys. All point to the rapidly changing conditions, increased competition, the effects of globalization and technology and the need to value employees as a valuable resource. What continues to be missing is a focus on the issues that confront small business that are the backbone of the U S economy.

INTERVIEWS

A first interview was conducted with two VPs of a small manufacturing company. An open-ended question was given to each VP as to the three to five critical issues facing their organization from a managerial perspective. The VPs gave four issues: managing growth, conveying to midlevel management and the employees the business vision, change issues, and training/maintaining/retaining employees.

All other interviews were conducted in similar manner starting with the same open-ended question to obtain the top three critical issues pertinent to their organization. The other six organizations included two distribution companies and three more small to midsize manufacturing companies.

The other issues identified by the other six organizations included: customer service (mentioned 3 times), strategic planning (mentioned 1time), leadership (mentioned 1 time), healthcare costs (mentioned 3 times), reduce operating costs (mentioned 3 times), eroding margins (mentioned 1 time), emerging markets (mentioned 1 time), government regulations (mentioned 2 times), and supplier communication (mentioned 1 time).

DISCUSSION OF ISSUES

The issues that were the most prevalent from all interviews were: retention of employees, conveying the business vision to management and employees, managing growth, customer relations/service, and healthcare costs (Figure 1). In the two distribution companies, six executives were interviewed. In the four manufacturing companies, seven executives were interviewed.

Figure 1: Issues for Small to Midsize Companies

Issue	Type of Company	
	Manufacturing	Distribution
Retention of employees	1	3
Conveying business vision	3	1
Managing growth	1	1
Customer relations/service	3	1
Healthcare costs	1	3
Operating costs	1	2
Government regulations	1	1
Managing change	1	
Supplier communications	1	
Eroding margins	1	
Emerging markets	1	
Strategic planning		1
Leadership		1

Several themes emerged from the interviews. These leaders were tactical and operational in the issues that they expressed. These issues included communication with customers, government regulations, recruitment and retention of quality employees, and managing growth.

These leaders and companies value their customers very much (Hope & Hope, 1997). This may be due to them being so small. There is not a lot of "customer inertia". These companies do business so close to the edge of profitability that each customer could mean the difference between a profit or loss for that quarter. Small companies are concerned with customer communication & support.

Another issue is government regulation in the form of taxes, tariffs and procedures. Small business executives feel that government regulations have become overly onerous. In one instance, a low level FAA employee stalled a project for almost nine months. The employee would not comply with her own agencies regulations regarding certification. After months of stonewalling, the matter was brought to the attention of a Congressman. Finally the issue was resolved. However, resources for these battles are limited, both in terms of expertise and money.

Also, small companies have a problem recruiting skilled and technical people. These types of people believe that small companies pose a greater risk than an already established larger company. These companies must compete with larger companies with respect to compensation, benefits and promotion opportunities. Most of the companies stated that if they were successful in recruiting skilled and technical people, there were not any issues in keeping them. Small companies do not have the resources to have many in-house training programs compared to large companies. Executives talked about how employees who better themselves thru education are an asset to the company and will usually be assigned increasing amounts of responsibility, in effect climbing the company ladder.

Growing the business is an issue that these leaders discussed in the interview. While this is of concern to them, it is not one of their most pressing issues. These managers talk about managing their growth because they realize the limited resources that they have to accomplish this goal.

Two additional interesting issues were revealed from the interviews. First, these small company executives discussed having no problem communicating their goals and visions with their employees. These companies are of such a size that communication with all the employees presents no problem. This can also be a competitive advantage for the companies that learn how to use this competency. Second, several mentioned their reliance on alliances with universities and their students for support in analyzing and solving business problems. They looked to sources of expertise that were available without the expenditure of resources, both capital and human.

SUMMARY AND FURTHER RESEARCH

This research should be of value to small and mid-size company managers and the academic community. It will help managers look at their organizations and develop strategic and tactical plans to more enhance performance. It will help the academic community focus in on the needs of small and mid-size companies and become a valuable resource for these companies. It will also help professors provide students with the skill sets and knowledge to face these challenges as they become the next generation of managers in these companies.

The next step in the research process is to validate the list of issues and develop a questionnaire. The extended research plan is to send the questionnaire to 1,000 small and mid-size manufacturing and distribution companies. The results will be analyzed and reported in a subsequent paper.

REFERENCES

Agarwal, R. (2002). The conditioning effect of time on firm survival: An industry life cycle approach, *Academy of Management, 45*(5), 971-994.

Barkema, H.G., Baum, J.A.C. & Mannix, E.A. (2002). Management challenges in a new time, *Academy of Management, 45*(5), 916-930.

Callaghan, N. & Schnoll, L. ISO 9000 for small companies. *Quality Digest* http://www.qualitydigest.com/aug97/html/cover.html.

Gutek, B. A., Groth, M. & Cherry, B. (2002). Achieving service success through relationships and enhanced encounters, *Academy of Management Executive, 16*(4), Nov., 132-144.

Hope, J. & Hope, T. (1997) *Competing in the third wave: The ten key management issues of the information age*, Harvard Business School Press: Boston.

Insinga, R. C. (2000). Linking outsourcing to business strategy, *Academy of Management Executive, 14*(4), Nov., 58-70.

Ireland, R. D. & Hitt, M.A.. (1999) Achieving & maintaining strategic competitiveness in the 21st century: The role of strategic leadership, *Academy of Management Executive, 13*(1).

Katila, R. (2002). New product search over time: Past ideas in their prime? *Academy of Management, 45*(5), 995-1010.

Park, D., Krishnan, H.A. & Klekamp, R.C. (1997) Perceived challenges and responses among United States small business executives, *International Journal of Management*, *14*(3), Sept., 490-498.

Perlow, L.A., Okhuysen, G.A. & Repenning, N.P. (2002). The speed trap: Exploring the relationship between decision making and temporal context, *Academy of Management, 45*(5), 931-955.

Rudis, E. (2003) T*he CEO Challenge 2003: Top Marketplace and Management Issues*, The Conference Board.

Strategis.gs.ca, (2003). Business Challenges and Opportunities, Web Site (Updated 10/7/2003) http://strategis.ic.gc.ca/epic/internet/insbrp-rppe.nsf/vwGeneratedInterE/rd00083e.html

Taylor, S.G. et al (1993) Critical issues: The academic-practitioner schism, *Journal of Managerial Issues, 5*(2).

LEGAL READINESS IN SMALL FIRMS: A THEORETICAL FRAMEWORK

Kirk C. Heriot, Western Kentucky University
kirk.heriot@wku.edu
Robert D. Hatfield, Western Kentucky University
bob.hatfield@wku.edu

ABSTRACT

The Industrial Organization theory of the firm explains the influence of the external environment on a firm's actions arguing that a firm's profitability and growth prospects depend upon the business environment it faces. Business executives are urged to scan the environment in an effort to identify opportunities and threats. Generally, most research on the external environment of small firms has focused on economic, socio-cultural, demographic, and technological elements where small firms are concerned. However, legal issues have not been given extensive consideration although legal issues can present substantial threats or opportunities. In spite of some recent recognition that legal issues can be important to large and small firms, the literature does not present a clear perspective of the legal factors that may be specific to small business owners. We propose a framework for evaluating the potential impact of legal issues on a small firm.

INTRODUCTION

The Industrial Organization theory of the firm explains the influence of the external environment on a firm's actions (Hoskisson, et. al., 1999). In essence, it argues that a firm's profitability and growth prospects depend upon the business environment it faces (Schendel, 1994). Business executives are urged to scan the environment in an effort to identify opportunities and threats that may affect their companies as part of their efforts to plan for the future and to position their organizations to compete (Elenkov, 1997; Goll and Rasheed, 1997). Students of strategic management are taught the benefits of scanning the external business environment in order to identify trends in society (for example, see Thompson and Strickland, 2001; Hitt, et. al., 2001; David, 2000). These factors or elements of the external environment are commonly grouped into the Economic, Socio-Cultural, Demographic, Global, Technological, and Political-Legal elements (Hitt, et. al. 2001).

The extant research on small firms and entrepreneurs has argued that small business owners and entrepreneurs also must be thoroughly aware of their external environment (for example, see Johnson and Kuehne, 1987, Smeltzer, Fann & Nikolaisen, 1988; Specht, 1987; Robinson, et. al. 1998). Generally, most research on the external environment of small firms has focused on economic, socio-cultural, demographic, and technological elements where small firms are concerned. However, legal issues have not been given extensive consideration (Robinson, Jackson, Franklin, and Hensley, 1998). Legal issues can present substantial threats or opportunities to the firm. We define legal issues as including "any laws or regulations enacted by federal, state, or local government" as well as typical legal and legal compliance practices of business owners.

Most of the literature concerning legal threats and opportunities has been studied from the perspective of the large firms that dominate the U.S. economy. (For example, see studies by Hambrick, 1981 or Daft, Sormunen, and Parks, 1984.) Studies that identify legal issues impacting big business are not necessarily relevant to the legal concerns and issues facing the small business owner. We still do not have a clear understanding of the identity of legal factors that may be significant to small business owners. The legal issues important to big business may be of less relevance or of minor importance to small business owners.

Internal legal practices of businesses and the external laws and regulations affecting those businesses can impact small business performance (Robinson, Jackson, Franklin, and Hensley, 1998). If the small business owner, with fewer human and financial resources than those available to big corporations, can identify critical legal factors for the benefit of the small firm, knowledge of these legal issues can improve the legal environment. The legal concerns unique to small business owners and the identification of those issues may be developed through a consistent inquiry into the practices of family-owned, and other small businesses.

Thus, the purpose of this paper will be to demonstrate need for additional research relating to the legal issues in the external environment of the smaller firm. Using an observational research method, we later hope to show that a few types of emerging legal issues can seriously impact the small firm. These findings will then serve as the basis for a broader discussion of how political and legal elements can impact the small firm.

In this paper the authors have artificially restricted the broad definition of legal issues to narrow the focus of the study and exclude less salient legal issues. Legal issues are defined as including "any laws or regulations enacted by federal, state, or local government" as well as typical legal and legal compliance practices of business owners. The specific definition of legal issues, for purposes of this paper, will include the following legal practices: use of contracts, decision-making constraints, human resource law, use of legal advisors, and other factors discussed here.

When examining the relevant literature only a limited number of helpful articles relating to small business practices were found. Without a literature foundation it is difficult to develop a theory or a checklist of essential legal issues affecting small firms.

There is, however, no shortage of articles giving prescriptive advice on particular legal issues in the literature. For instance, articles advise a small business owner about how to handle everything from AIDS in the workplace (Franklin and Gresham, 1992; Hoffman and Clinebell, 2000) to sexual harassment (Robinson, et. al. 1998) and taxes. Compliance with tax regulations, environmental regulations, employment regulations, accessibility regulations, industrial and safety regulations, and the impact of federal laws on business are just a few of the myriad of legal topics addressed by the literature. When examining industry-specific topics, the review of specialized standards for performance and operations, quality and control, and industry-wide guidelines may also be determinative of how a firm channels it legal resources. Review of legal concerns may also include the ownership of land and facilities and the impact of the locality on zoning and planning regulations that affect the business.

Beyond prescriptive advice however, we were surprised that the extant literature has simply not developed a useful profile of the legal issues that may be critical to the unique position of small business owners. The small business literature is lacking research manuscripts based upon theoretical underpinnings. Instead, ad hoc articles on various legal topics dominate the small business literature complimented with "legal advice" articles on specific legal issues.

The extant literature related to scanning the environment is well known to readers of the small business management, entrepreneurship, new venture creation, organizational theory, or strategic management literature. This review will focus on two recent directions in the literature. First, we will highlight the efforts of small business owners to identify significant political and legal issues in their industry. Secondly, we will focus on the implications of failing to do so as noted in recent articles by West and DeCastro, 2001.

Perhaps the state of our understanding of legal issues and small businesses can be surmised by reviewing a recent special issue in Entrepreneurship: Theory & Practice (Katz, Aldrich, Welbourne, and Williams, 2000). The entire issue was devoted to "Human Resource Management" (HRM) issues and small and medium-sized businesses. Surprisingly, none of the articles emphasized legal issues related to small firms. The absence of legal issues is shocking since the human resource function is responsible for so many legal issues related to the personnel in a firm, such as fair hiring, Aids/HIV, wrongful discrimination, labor relations, affirmative action, OSHA, workers compensation, sexual harassment, etc. (Carrell, Elbert, & Hatfield, 2000). Ironically, the guest editors noted that "very little serious academic work on human resource management was carried out within smaller firms" (Katz, et. al., 2000, p. 7). This lack of serious academic work with regard to legal issues in small firms (at least at it relates to HRM) was a problem in their own special issue. Not one of the seven articles in the special issue addressed legal issues related to HRM in a serious or extensive manner.

Legal issues are rarely discussed in small business studies (See, for example, Smeltzer, L. R., Fann, G. L. & Nikolaisen ; Fann and Smeltzer, 1989; Lang, Calatone, and Gudmundson (1997) or Beal (2000). For instance, the studies by Fann and Smeltzer (1989) and Land, Calatone, and Gudmundson (1997) conclude that it is important for small business managers to recognize the importance of external environment issues with regard to "customers and competitors". The Fann and Smeltzer (1989) article focused on competitors while the Lang, Calatone, and Gudmundson (1997) study emphasized environmental threats and opportunities generally. Lang, et. al. study small firms found positive relationships between perceived threats and information seeking and between perceived opportunities and information seeking. Yet, there was a negative relationship between perceived threats and perceived opportunities. Thus, their study suggests the possibility of selective perception among small firm managers. Beal's (2000) study concluded that political conditions do not appear to be critical to either the mature or growth stages of industry development. The fact that these studies neglected the area of legal issues may not be an indication that legal issues are not important but perhaps just indicate a focus upon other issues.

Review of the current literature leads to only two journal articles that specifically emphasize the importance of political issues (cited in Sawyerr, 1993; Sawyerr, 1994; Sawyerr, Edbrahimi, and Thibodeaux, 2000). However, the sample of small firms in the first study was gathered from Nigerian firms. Given the political upheaval in Nigeria, the political elements of the general environment are obviously important. However, the situations in the U.S. and Nigeria are arguably very different. In the second article, Smeltzer and Fann (1988) conclude that small business owners do not value the advice of accountants, bankers, and lawyers. Their finding is curious given the findings of Chrisman and McMullan (2000) that small firms benefit from the advice of outsiders such as SBDC consultants. Chrisman and McMullan suggest that small business owners do value the advice of friends and family as well as their own ability to read about trends and issues in magazines.

Sonesy, Baugh, Newton and Gulbro (1997) conducted the only study of specifically emphasizing legal issues in small businesses. Their phone survey of 27 small businesses in a single state conducted in 1996 revealed that only one-third of the firms had made changes to comply with the Americans with Disabilities Act, Civil Rights Act of 1991, or Family and Medical Leave Act. This finding is particularly disturbing because each of these laws had been passed 6, 3, and 5 years, respectively, before the survey was completed. The findings give cause for alarm about the state of readiness among small firms with regard to emerging legal issues, such as environmental hazards, limited liability corporations, detailed employee record-keeping, or arbitration clauses.

The identification of the legal issues that were discovered as part of our research process suggest that small firms must be cognizant of these issues just as they would economic, socio-cultural, or technological issues. The ramifications of not knowing this information are extremely important. According to research by Lang, Calantone, and Gudmundson (1997), their study of small firms found positive relationships between perceived threats and information seeking and between perceived opportunities and information seeking. However, they identified a negative relationship between perceived threats and perceived opportunities, which raised the possibility of selective perception among small firm managers. This finding suggests that small firms may only seek out information in the normal course of managing their firm. Thus, new legal issues or political changes may not be evaluated unless they immediately affect the firm. Their research suggests that small business owners do not casually survey their legal environment in search of potentially important issues. They only survey their legal environment if they have a priori knowledge of the issue's potential importance. Beal's study (2000) suggests that small business owners fail to scan the environment because they are "constrained by their involvement with daily operations" (Beal, 2000, p. 44).

Such a situation is ripe for disaster. According to West and DeCastro (2001), the failure to correctly identify legal, regulatory, and political elements of the external environment may represent a resource weakness and distinctive inadequacy. The small business owner may fall into a trap by believing that he knows the relevant legal and regulatory issues that impact his or her firm. However, as prior research suggests (Franklin and Gresham, 1992; Robinson, et. al. 1998), small firms often do not have a grasp on these types of issues. Thus, we would suggest that the following steps be taken, at a minimum, to ensure that the firm can adequately address their legal issues.

The proposed model suggests that the external environment is a significant factor for small as well as large businesses. Further, as discussed in this article, there is strong support for the executive scanning activity of the organizational leadership. Part of that continuous scanning is to react to critical issues thrown at the organization from the external environment. Our model suggests that small business leaders adopt a general decision-making approach to handling the issues surrounding law and legal compliance.

Step 1: Identification of potential legal issues. Further research can identify the broad categories that will likely include anti-discrimination laws, safety and health laws, pay laws, tax laws, incorporation laws, contract laws, and others. This area needs additional research and a fleshing out of the relevant categories.

Step 2: Decisional Stage 1 - Assessing the impact of the future. If there is no impact at the immediate time then the leader continues executive scanning. However, if there is impact that is immediate or significant future impact can be recognized now the leader moves to the next step. For instance, a small employer may feel that they need no immediate reaction to the Civil Rights Act Amendment of 1991. However, many larger employers found that it was important to prepare for possible discrimination complaints in advance of having a complaint. Small business leaders need to be able to assess both the immediate and the long-term issues as they arise. The literature needs development.

Step 3: Decisional Stage 2 - Evaluating alternative courses of action. The possibilities will include deciding upon the appropriate reaction or living with the impact of the legal issues on the organization. Small business owners and leaders need additional information to help make their choices at this stage.

Step 4: Take appropriate action. At each step the small business leader is continuing to scan the external environment. For instance, as cited above, there was a flurry of very significant employment laws at the beginning of the prior decade. The Americans with Disabilities Act was passed in 1990 and the Civil Rights Act Amendment was passed in 1991. Leaders cannot afford to focus exclusively on one legal area without maintaining the scanning since yet another critical issue may quickly emerge. Small business owners need help in scanning the relevant legal environment. Small firms are acknowledged not to have the resources necessary to cope with potential errors relative to their larger competitors (Palmer, Wright, and Powers, 2001). We believe the legal issues identified in this study are only the "tip of the iceberg" representing the legal, political, and regulatory environment.

As potential consultants to small firms or as faculty advisors to consulting teams, Small Business Institute Directors are in a unique position to influence small firms. Clearly, you can only suggest what should be done. However, many owners of these small firms will readily listen to your advice. Perhaps the summary comments by Barney, Frances, and Ringleb (1992) best summarize the perspective that should be taken. Indeed, virtually every introductory organizational and management author cites the importance of the legal environment facing (large) organizations. However, much organizational research remains relatively naive about the organizational implications of the law. A significant challenge facing organizational scholars is to become sufficiently familiar with these bodies of law that they can anticipate their implications for the organizational phenomena under study (Barney, Frances, and Ringleb, 1992, p. 345). Clearly, their advice extends to SBI Directors in their capacity as advisors to student groups and consultants to small firms.

We hope this review and model will stimulate interest in identifying issues of legal concern for the small and entrepreneurial organizations. We believe this study emphasizes the need to stay abreast of current issues in the legal, political, and regulatory environment of the small firm. In fact, we propose the discussed model as a starting point in improving the legal readiness of the small business leader.

REFERENCES and MODEL available by contacting the authors.

COST EFFECTIVE MANAGEMENT OF ACCOUNTS PAYABLE FOR A SMALL BUSINESS

Rodger G. Holland, Georgia College & State University
rodger.holland@gcsu.edu
Kathleen A. Kaminski, Georgia College & State University
kathy.kaminski@gcsu.edu

ABSTRACT

Small businesses often struggle to earn a decent rate of return, yet ignore the simple strategy of controlling purchase discounts available. Even though the discounts may seem small, the implicit rate of interest is quite high. Significantly reducing their costs would clearly increase their bottom line. This paper presents an alternative method of recording purchases that allows for more efficient and effective management of a company's accounts payable.

INTRODUCTION

Many small businesses are started by individuals who have excellent entrepreneurial skills and drive but little business or accounting background. Such individuals may not fully understand or appreciate the need to manage their accounts payable and pay their bills within the allowable discount period. This paper presents a simple alternative method of recording purchases and payables that enables business owners to better manage their payment process.

THAT TWO PERCENT IS NOT CHEAP

Vendors typically offer payment terms that include a discount period. The most common discount terms are 2/10, net 30. Given these terms, full payment is due within 30 days, but a 2% discount of the purchase price is available if payment is made within 10 days. While 2% sounds like a very small amount, the buyer is able to save this 2% over a 20-day period. Alternatively, by not paying on the tenth day, the buyer can wait until the thirtieth day to pay, but it costs an additional 2%. Since there are approximately 18 such 20-day periods within a, this comes to paying an additional 36% a year. While most firms are struggling to earn a decent rate of return, they are instead paying an effective interest rate of 36% needlessly. Taking advantage of purchase discounts is an automatic cost-savings of 36% and an excellent investment opportunity. This would be true even if it is necessary to borrow money elsewhere to pay within the discount period. In fact, American Express has programs specifically directed at small businesses that can be used to better manage accounts payable. The rates charged for these services are usually much less than 36%. [For those who like to be precise, the rate is 2/98*365/20, but the precise number is not needed to make the point.]

Once a business starts paying within the discount period, the question naturally arises as to how good a job it is doing at paying within the discount period. This question is not easily answered by the standard accounting system. Let us first briefly review the two standard methods of accounting for purchases, the gross method and the net method.

THE GROSS METHOD

The gross method records both Purchases and Accounts Payable at the gross purchase price. If discounts are taken, they are subsequently recorded to a Purchase Discount account. This is the most widely used method of accounting for purchases and the most easily understood. It is typically the method taught in most introductory accounting courses and is a mirror image of the method used to record sales discounts taken.

To illustrate, assume a purchase price of $1,000 with typical payment terms of 2/10, net 30. The transaction would be recorded as follows:

DR	Purchases	$1,000
CR	Accounts Payable	$1,000

If payment is made within the 10-day discount period, the payment would be recorded as follows:

DR	Accounts Payable	$1,000
CR	Cash	$ 980
CR	Purchase Discounts	$ 20

The $20 discount equals the 2% of the $1,000 purchase price. The account "Purchase Discounts" therefore really means "Purchase Discounts Taken" with "Taken" being implicitly understood. Purchase Discounts (Taken) is then subtracted from the Purchase account to arrive at the net cost of purchases. Using proper accounting terminology, it is a contra-account to the Purchases account.

Continuing the above example, if payment is NOT made within the 10-day discount period, the payment would be recorded as follows:

DR	Accounts Payable	$1,000
CR	Cash	$1,000

While the gross method may well be the most widely used method, it has two distinct disadvantages:

1. The method fails to indicate the amount of purchase discounts that have not been taken or were "lost" due to failure to make early payments. It is useful for management to know how much additional cost has been incurred for such failure, but the gross method does not provide this information.
2. "Lost" purchase discounts are really a form of financing charge or fee incurred to take an extra 20 days to pay a bill. The lost discount is viewed as compensation to the vendor for providing financing to the buyer. Such charges are buried in the Purchases account and

ultimately become a part of Cost of Goods Sold. The lost purchase discounts should be disclosed separately as "other expenses" in the same manner is interest expense.

THE NET METHOD

Now assume the same transaction of a $1,000 purchase with payment terms of 2/10, net 30. Using the net method, the transaction would be recorded as follows:

DR	Purchases	$ 980
CR	Accounts Payable	$ 980

Under the net method, it is assumed that the applicable $20 discount (2% of the purchase price) will be taken. This assumption can be made a matter of company policy since the decision as to whether to pay within the discount period is completely determined within the company. The discounted amount is the amount that the buyer expects and intends to pay and is the appropriate amount at which to record the liability Accounts Payable. It should also be noted that the vendor wants the buyer to take the discount. That is why it is offered in the first place, as an added incentive for prompt payment. This being the case, the discounted price is the most the vendor expects or wants to receive for the purchase. It is therefore a truer and more accurate measure of the value or cost of the purchase. The buyer is then justified in recording the purchase at the discounted price.

Continuing the above example, if payment is made within the 10-day discount period, the payment would be recorded as follows:

DR	Accounts Payable	$ 980
CR	Cash	$ 980

If payment is NOT made within the 10-day discount period, the payment would then be recorded as follows:

DR	Accounts Payable	$ 980
DR	Purchase Discounts Lost	$ 20
CR	Cash	$1,000

Recall that under the gross method, Purchase Discounts (Taken) is a contra-account to Purchases and is deducted from the Purchase account. One might therefore expect that Purchase Discounts Lost would be treated as an adjunct account and added to the Purchases account to get the final full cost of purchases. However, as discussed above, the lost discount is really an amount paid for the use of funds for an additional time period (i.e., in this example, 20 days beyond the discount period). The proper procedure is to treat Purchase Discounts Lost as a finance charge in the same manner as interest and to include it under the income statement heading "Other Non-operating Expenses."

The net method, however, does have one disadvantage. It fails to show the amount of discounts taken. Management and staff may lose track of just how significant these savings really are.

THE NET-GROSS METHOD

Under the gross method, there is no record of the purchase discounts lost. Under the net method, there is no record of the purchase discounts taken. Since both amounts have informative value, a combination of the two methods, which the authors call the "net-gross" method, allows for the recording of both discounts lost and discounts taken. Using this new method, the Purchases account is recorded net of the discount while the Accounts Payable account is recorded at the gross undiscounted amount. The difference is then recorded to an account entitled "Purchase Discounts Available."

Using the same illustration above, the original purchase transaction would be recorded as follows:

DR	Purchases	$ 980
DR	Purchase Discounts Available	$ 20
CR	Accounts Payable	$1,000

Continuing with the example, if payment is made within the 10-day discount period, the payment would be recorded as follows:

DR	Accounts Payable	$1,000
CR	Cash	$ 980
CR	Purchase Discounts Taken	$ 20

If payment is NOT made within the 10-day discount period, the payment would be recorded as follows:

DR	Accounts Payable	$1,000
CR	Cash	$1,000

Like the gross method, this method maintains a record of the purchase discounts that were taken. Because it also records the total purchase discounts that were available, it is a simple matter to compute the amount of purchase discounts that were lost:

Purchase Discounts Lost = Purchase Discounts Available - Purchase Discounts Taken

In using the net-gross method, the recording of payments, whether within the discount period or beyond, is exactly the same as in the widely used gross method. This should make it relatively convenient for organizations presently using the gross method to adapt to the net-gross method. Only one additional account is required - Purchase Discounts Available. The only procedural change is to initially record the purchase net of the discount to the Purchases account, with the amount of the discount being recorded to the new Purchases Discount Available account.

Under the net-gross method, the Purchases account is already correctly stated at the true value of the purchase. The Purchase Discounts Taken account is netted with Purchase Discounts Available. Any resulting balance represents the purchase discounts that were lost and would be reported as a non-operating expense.

CONCLUSION

With these minor changes, accountants will be able to provide management with the cost of purchase discounts lost without having to give up the reporting of the purchase discounts taken. Management can now simply compute the percentage of discounts that were taken/lost relative to those that were available. More efficient and effective management of a company's accounts payable will result, which will clearly lead to increased profit.

EXECUTIVE COMPENSATION: HOW MUCH IS ENOUGH? AN IN DEPTH LOOK AT THE RISING COST OF EXECUTIVE COMPENSATION COMPARED TO THE PERFORMANCE OF THE FIRM

Taylor Klett, Sam Houston State University
Klett@shsu.edu
Balasundram Maniam, Sam Houston State University
maniam@shsu.edu
Rhonda Strack, Sam Houston State University

ABSTRACT

In today's world of large businesses we have seen companies go out of business and hundreds of thousands of people lose their jobs. Investors have lost their life savings and retirement funds have been seriously hurt. With the spiraling down of retirement savings and stock prices, it appears the only people who haven't been affected have been the executives who run these businesses. We are now seeing executives making decisions that only help themselves and not the entire company, which is leading to a problem with shareholders buying into the huge compensation packages that are often awarded. Executives are under more pressure to deliver accurate and consistent numbers to the street, and, accordingly, being in the hot seat of corporate America is causing those executives to be rewarded in record amounts. This not only is a burden to corporations but might well drive incorrect and unethical behavior amongst executives whose pay is closely tied to the performance of the firm.

This paper investigates the rising cost of executives in today's corporations. The principal findings show that the cost of an executive has risen and not always in accordance with the performance of the firm. This has been to numerous factors including varying the compensation packages and the tax benefits that corporations can obtain while granting the various forms of compensation. Furthermore, this paper investigates various companies and the manner in which the executives were paid in relation to their performance.

MAXIMIZING THE HARVEST BY CHANGING TO A C-CORPORATION FROM A LIMITED LIABILITY COMPANY WHEN SELLING TO NEW OWNERS

Frank S. Lockwood, Western Carolina University
rosswood@mchsi.com
Roger Lirely, Western Carolina University
lirely@wcu.edu
Steven W. Young, Western Carolina University
SteveWYoung1@aol.com

ABSTRACT

One of the first issues addressed by those forming a new business entity is to decide the type of legal form to be adopted. There are four recognized legal forms that can be used when starting a new venture: sole proprietorship; partnership (general or limited); corporation (S-corporation or C-corporation); and the limited liability company (LLC). The normative approach found in many business strategy and management textbooks is to select one of the four legal forms at the inception of the new business. The selection of the type of legal form to be adopted is done by assessing the advantages and disadvantages of each form with regard to the goals of the new business. In the event the endgame is to harvest the success of hard work by selling the company to new owners, the most generally recommended strategy is to adopt the C-corporation legal form at inception. Implementing this strategy may offer the advantages of the corporate form of organization when harvesting but will miss the advantages of operating as a partnership during the time the company is growing. The authors suggest new ventures adopt the limited liability company legal form at inception and change to a C-corporation when preparing to implement their harvesting strategies as a way to maximize the advantages of operating as a partnership and as a corporation. The paper provides an in-depth analysis of state and federal law describing the historic and current status of the LLC and offers support for the recommended strategy of changing from an LLC to a C-corporation when selling to new owners.

BUSINESS ETHICS FOR UNSEASONED ENTREPRENEURS: TRENDS AND CONCERNS FOR PROFESSIONALS AND STAKEHOLDERS

Michael W. Boyd, University of Tennessee at Martin
michaelb@utm.edu

ABSTRACT

This manuscript looks at the importance of ethical behavior and decision-making in today's business operations. It points out who is involved and some of the ramifications of unethical business dealings over time. Ethical standards are entwined throughout our companies today no matter what their size. It is imperative that young entrepreneurs understand how some of society's accepted actions have evolved over time and the problems that can arise if not checked in the early stages of start up for new businesses. To develop an organization that normally operates ethically in all of their dealings the founder needs to set the trend early in the company's life span.

INTRODUCTION

Ethics play a major role in today's "arm's length" business transactions, and in turn, those transactions play a major role in the lives of all stakeholders. Taking a closer look at today's business ethics and how each party is affected can benefit all the participants in this dynamic process. Many entrepreneurs are new or relatively new to the business world and can be somewhat naïve about common business practices that have evolved over time. Questions arise such as, should a business have morality, or is that a human characteristic? Should all executives, managers, and employees answer to the same set of rules for ethical conduct? Are ethical standards the same for a person at work as they are when that person is not at work? Who is guilty if an employee performs an unethical or illegal act while working for a company? What should be done if an employee calls attention to unethical practices that are condoned by the company? Are there any correct answers or do the answers depend on the situation and circumstances? Recently, major unethical and/or illegal acts have been exposed in many of our corporations. This discussion will hopefully better equip our business leaders and young entrepreneurs to deal with ethical questions arising from situations in which they find themselves.

WHO HAS CORPORATE ETHICSWHO HAS CORPORATE ETHICS?

Ethics in business is not a new issue. In 1550 Charles V of Spain contemplated the status of the natives discovered in the New World. Should they be slaves or be assigned a higher status? Naturally, they had to be Christianized if they were going to be of any value in the known world. The *ethos* and *mores* of the Spaniards' own European society and culture did not allow them to even think about the natives as another culture of equal status. This was one of the problems discussed and argued in the 1500's, and similar problems are deliberated today with little more progress towards a solution than in the sixteenth century. Today's scholars argue about such issues as to whether or not payment should be made to third parties for the right of doing business in another country. In the free market system, our American culture teaches us that it is not moral, ethical, or legal to bribe an employee of another company in order to gain contractual preference. However, in some societies and cultures, this type of behavior is perfectly acceptable and even expected if a company is to succeed economically. In the current world economy with its ethnic and religious diversity and the sheer volume of daily business deals conducted among all countries, how do we establish and/or maintain an acceptable level of ethical standards? Different cultural groups across the world often have different approaches to the ethical issues generated by the world economy and its myriad of transactions.

Board of DirectorsBoard of Directors: The board of directors is the most powerful level of company management - at least by the formal hierarchical standards of today's business world. If the board of directors is at the top of the hierarchy, it would seem logical that this is where the ethical behavior patterns for the corporation should be developed. In today's society it appears that the gain or loss of large sums of money is not thought to be as important as whether or not the player followed the currently perceived business rules of fair play. In Adam Smith's day, the issues were basic constructs like "level playing field," equal access to market intelligence, non-monopolistic competition, and other similar premises. Today, an organization can <u>ethically</u> pursue and maximize profit as long as it obeys the written rules of business, established customs of the work place, and traditions. Although legislative bodies establish rules and laws, the top echelons of corporate management establish the customs and traditions in the culture of that company. Within this system, a disturbing trend has developed. Many companies have a written code of ethics or conduct that all employees are supposed to follow; however, that compliance seems to stop just outside the boardroom door. Inside that boardroom one will find many of the top level managers of the company who are also acting as board members whose role is to monitor management; thus, they are monitoring themselves. Also, these managers/executives are sitting on each other's corporate boards, somewhat as a clique, and approving major compensation packages for one another while downsizing and laying off thousands of workers in the company to save money. It's not difficult to arrive at the conclusion that the concept of "arm length's transaction" has been violated. Enron's Board of Directors appears to have fallen short in many areas. They were receiving minimal information on the extent of partnerships that were being formed and allowing management to report large earnings from these deals.

Top ManagementTop Management: Top management's primary role in the company is strategic development. This concept seems simple enough; however, strategy must be aligned with the underlying ethical behavior of the company. The way a company conducts itself in day-to-day transactions is a distinct signal by and reflection on those involved in designing and carrying out the transactions.

When top management supports financial misrepresentation by lobbying and coercing regulators to write loose and flexible rules that allow the former to finesse and manipulate income, this signals loose ethical behavior in terms of conscience AND consciousness. The options of reporting or not reporting and acting or not acting in certain situations is based upon personal needs and desires for personal gain, despite the fact that top management is supposed to be a steward for the owners (stockholders) of the company. The actions of managers and board members are the basis for the evolution of corporate ethics in any company, regardless of written or unwritten rules. The people at the top of the organization set the pattern for all the other employees to follow and influence the corporate conscience, consciousness, and ultimately, culpability. The current upsurge in entrepreneurship is a serious reason to look at our past and present business society, and there is reason to be concerned about the role models to whom the new entrepreneurs turn for example and direction.

Middle ManagementMiddle Management: Middle management has an obligation to follow the standards and strategy established by top management. The impact of unethical behavior at this level is not quite as profound since it remains more isolated in the particular manager's section or department. However, in some cases, middle management can affect overall company behavior through indirect methods or informal cultural power that is already established within the company.

EmployeesEmployees: Employees' attitudes and behaviors are molded by the actions, beliefs, and values, and the moral and ethical behavior reflected by management. However, employees have attitudes and values that allow them to act independently of what may be asked or even required of them by their superiors.

HOW DO BUSINESS ETHICS AFFECT CURRENT MANAGEMENT AND ASPIRING ENTREPRENEURS?

Management may be affected in several ways by business ethics and needs to be aware of ethical expectations and the ramifications that a lack of ethics can cause. If ethical behavior can be predicted in individuals, then a corporation can identify people who are more susceptible to unethical decision making. Management may also be affected by ethics through legal liability issues. Accounting firms, along with many other service and manufacturing organizations, have taken the brunt of consumer losses because of the consumer's poor judgement. It appears that American business has been singled out by juries as an easy target on which to affix blame and from whose "deep pockets" to let the public have restitution.

The public plays a dual role in corporate ethics much like an accountant plays a dual role in the sanctioning of flexible financial reporting standards. The public--or at least the shareholders--will benefit from profit maximization through higher stock prices and dividends, and they will lose through overly generous compensation plans for management.

WHERE DO WE GO FROM HERE?

The trends in corporate ethics over the past few decades have not been encouraging in the U.S. It seems that large corporations are taking more and more advantage of the system for several reasons. They are trying to maximize profit in any way that gives them an advantage; whether the conduct is ethical or legal is not an issue as long as they do not get caught. Profit maximization is being intensely stressed by management to increase their compensation and by stockholders to increase their wealth through dividends and increased stock value. Neither party is directly concerned with the overall future health of the firm because both feel they have other alternatives if the corporation begins to falter. The emphasis is on self in both cases.

Can training within the company correct all of the unethical behavior that pervades today's corporate world? Most people think that ethical behavior is formed in an individual at an early age and cannot be changed once a person has reached maturity. If so, training at this late date will not correct all of the occurrences of unethical behavior in business transactions in today's business world. However, not all employees are ethically unsound.

In closing, consider what managers need to observe about a company prior to assuming a new position. The organization should have an established control system to deter unethical practices. The manager should be concerned with more than the financial health of the company. Trends in good ethical behavior have declined in business in the past few decades; to rectify the situation will require a concerted effort to reestablish personal beliefs and values that can once again look past self interest. Our current generation of entrepreneurs should understand the importance of the values and ethics of our founding fathers when creating new entities and how these values and ethics are the cornerstones of a successful present and future business environment and society.

OFFSHORE OUTSOURCING FOR ENTREPRENEURS: CHALLENGES AND REWARDS

Ron Cheek, University of Louisiana at Lafayette
cheek@louisiana.edu
Michelle B. Kunz, Morehead State University
m.kunz@morehead-st.edu
Kathy Hsu, University of Louisiana at Lafayette
kathy@louisiana.edu

ABSTRACT

Early in the business process entrepreneurs assume the multiple roles of management, operations, sales, customer service, and whatever else needs to be done. As organizations grow and prosper, employees are added and delegated the responsibilities previously handled by the entrepreneur. Financial considerations are normally the impetus behind the assumption of these multiple roles. Throughout the growth cycle organizations are continually challenged to provide the financial and human resources to meet their ever expanding needs. Outsourcing offers the capacity for entrepreneurs to effectively and efficiently satisfy the financial and human resource. From an entrepreneurships perspective, outsourcing is the practice of subcontracting work to outside organizations. The work performed may be either service or manufacturing and the organization providing the work may be domestic or international. The traditional purpose of outsourcing was to find a more cost effective way to produce a good or service. Now outsourcing decisions are not made merely for their cost effectiveness but include the consideration of several other factors. These decision factors may include activities such as non-core competency functions or perhaps expensive technology software updates.

It is essential for entrepreneurs to understand the benefits and threats of offshore outsourcing. In this paper, we examine the challenges and rewards for organizations as they use offshore outsourcing as a key tool to achieve a competitive advantage in the ever changing economy.

THE ENTREPRENEURIAL CONTINUUM: A NEW PRESCRIPTION FOR FUTURE STUDIES

William T. Jackson, University of Texas of the Permian Basin
jackson_w@utpb.edu
Mary Jo Vaughan, Mercer University
vaughan_mj@mercer.edu

ABSTRACT

In this paper, we present an extension of several studies that have attempted to provide definitions of types of small businesses (Jackson, Watts & Wright, 1993; Carland & Carland, 1982 and 1997; Jackson & Gaulden, 2001; and Carland, Carland & Ensley, 2001). While each of these previous studies had the purpose of improving entrepreneurial research, each left gaps that would continue to create future research dilemmas. This extension suggests that there are four broad categories of small business owners—each of which exists along a continuum from differentiation to low-cost. The purpose of the categorical perspective is not to explore the characteristics of the entrepreneur, but rather to suggest a framework for study. While the model highlights small business strategies as the arguments of study, it does so with the belief that strategy selection will be driven by a personal focus of the individual. Specifically, the small business owner will have either an entrepreneurial differentiation focus, a mixed entrepreneurial focus (either differentiation/low-cost or low-cost/differentiation), or a low-cost entrepreneurial focus. This focus will drive their strategy choice.

A STUDY OF RURAL SMALL BUSINESS OWNERS' INTERNET USAGE

Sherry Robinson, Penn State University
skr12@psu.edu

ABSTRACT

The internet is becoming increasingly important to businesses for sales, communications, and other activities. A strong internet presence can help even the smallest, most remote business achieve a national or global presence. This study examines the use of the internet by small business owners in rural and non-rural areas as defined by metropolitan statistical area (MSA) status. Data were obtained from a national survey conducted by the Center for Women's Business Research. Respondents were categorized by whether or not they were located in an MSA. Analysis of the results shows that, overall, metropolitan business owners tend to use the internet for business purposes more than their rural counterparts do.

INTRODUCTION

Rural (non-metropolitan) development often lags behind that of urban areas in terms of population, buying power, capital, entrepreneurial climate, innovation, support services such as health care, and well-developed electronic and transportation infrastructures, (Fendley & Christenson, 1989; MacKenzie, 1992; Small Business Administration [SBA], 2001; Tigges & Green, 1994). However, internet usage has changed the face of business in both urban and sparsely populated areas. Rural businesses may benefit from the internet even more than others as web pages allow even the smallest, most remote companies to reach a global market.

This study will examine data regarding internet usage by small businesses. Data were obtained from a national survey conducted by the Center for Women's Business Research. The responses of business owners in metropolitan and non-metropolitan areas, as indicated by zip codes, were compared. The following section briefly reviews the literature on rural businesses. The results of this study are then presented and analyzed.

BUSINESSES IN NON-METROPOLITAN AREAS

Non-metropolitan areas are generally considered to be less advantageous to entrepreneurship and business development due to lower levels of economic development (Fendley & Christenson, 1989; MacKenzie, 1992; SBA, 2001; Tigges & Green, 1994). The quantity and quality of jobs in rural areas have been seriously affected by problems such as sagging rural farm economies, increased foreign competition, and decreases in rural industries (Lichter, 1989). Henderson (2002) concluded that the small size of markets combined with remoteness, less access to venture capital, and more difficulty accessing technology frequently results in fewer high-growth entrepreneurs in rural areas.

These factors lead some people to migrate to more developed urban areas, while others face this challenge head on by starting their own businesses. Some rural residents even view their locations not as disadvantages, but as advantages (Hout & Rosen, 2000; Jack & Anderson, 2002; Robinson, 2001; Tosterud & Habbershon, 1992) For those who value and want to maintain their unique rural way of life, entrepreneurship provides an avenue for financial improvement and independence (Tosterud & Habbershon, 1992).

Despite the economic problems, several studies have found no significant differences between business ownership in rural and non-rural areas or that non-metro areas had higher rates of business ownership or self employment (Clark & James, 1992; Lin, Buss, & Popovich, 1990; Robinson, 2003). One reason for this may be that create their own jobs in order to remain in a rural area where jobs are not plentiful (Tosterud & Habbershon, 1992). Other researchers have found that rural business owners find advantages in lower costs and established social networks (Robinson, 2001; Sullivan, Halbrandt, Wang, & Scannell, 1997). However, close social networks associated with rural communities may also hinder entrepreneurship if the stifle growth or discourage innovation (Westland & Bolton, 2003).

Electronic infrastructure in rural areas often lags behind that of metropolitan areas. For example, internet access may be restricted to dial-up service. Although dial-up internet access is slow and possibly inconvenient, it allows anyone with a standard telephone to log onto the internet to seek information and post a web site if desired, providing more opportunities for non-metropolitan business owners. Improvements in technology and falling prices have made computers and internet access more affordable as they have increased in speed while decreasing in cost. In fact, computer prices dropped about 12.8% between 1990 and 1994, and by over 24% between 1995 and 1999 (Kliensen, 2003). Such technology has allowed business owners to reach a broader market than their sparsely populated areas.

The current literature suggests both that rural business owners are disadvantaged by their locations and also encouraged by it. While many may decide that starting a business in a non-metropolitan area poses too great a risk, others have found that there are benefits. With its potential to allow rural business owners to expand their markets and possibly better compete within their local markets, the internet is increasingly important to business owners. This study examines this issue by comparing the survey responses of metropolitan and non-metropolitan business owners. The following sections present the methodology followed in this study and the results of the study.

METHODOLOGY AND RESULTS

A nationwide survey was conducted by the Center for Women's Business Research (2001) in the summer of 2001. The sample frame was based on a list of names from Dun & Bradstreet's Dun's Market Identifier database. A disproportionate number of firms with larger revenues were included in the sample, which was stratified by firm revenue and sex. Non-internet users were limited to the first 209 respondents.

Included in the data were respondents' zip codes. Each zip code was categorized as metropolitan or non-metropolitan depending on whether it belonged to a Metropolitan Statistical Area (MSA). Of the 648 respondents included in this study, 171 (26.4%) were not in an MSA. An almost equal proportion of men and women were included with 87 women from non-metropolitan areas (51% of non-metropolitan respondents) and 240 from metropolitan areas (50.3% of the metropolitan respondents). Because some respondents refused to answer some questions, total frequencies for some questions are lower than others.

Survey results are shown in Table 1. Percentages shown in the table reflect the proportion of MSA or non-MSA respondents giving a particular answer. These were used to make analysis easier considering the larger number of metropolitan residents included in the study.

Table 1
Small Business Owners' Use of the Internet

Level of Business Internet Activity	non-MSA		MSA	
Never use internet	99	57.9%	155	32.4%
Occasionally	43	25.1%	141	29.5%
Regularly	22	12.9%	114	23.8%
Constantly	7	4.1%	67	14.0%
Total	171		478	
Level of Personal Internet Activity				
Never use internet	91	53.5%	141	29.6%
Occasionally	55	32.4%	167	35.0%
Regularly	19	11.2%	112	23.5%
Constantly	5	2.9%	56	11.7%
Total	170		477	
Broadband Access				
Yes	25	27.5%	153	43.1%
No	58	63.7%	182	51.3%
Don't know	7	7.7%	19	5.4%
No answer	1		1	
Total	91		355	
Engage in Online Banking				
Yes	10	11.0%	81	24.2%
No	86	89.0%	267	75.0%
Total	91		356	
Business Has a Web Site				
Yes	33	36.3%	191	53.8%
No	58	63.7%	164	46.2%
Total	91		355	

When do you think your business will start using the internet				
Never	43	54.4%	58	47.2%
Within 6 months 3	3.8%	6	4.9%	
6 months–1 year 5	6.3%	13	10.6%	
1–2 years	12	15.2%	14	11.4%
More than 2 years	10	12.7%	12	9.8%
Don't know	5	6.3%	9	7.3%
No answer	1	1.3%	1	0.8%
Totals	79		123	
Why don't you use the internet for business?				
Don't see the need	45	76.3%	58	69.0%
Equipment too expensive	1	1.7%	4	4.8%
No time to learn				
how to use	6	10.2%	14	16.7%
Privacy	2	3.4%	4	4.8%
Don't know	4	6.8%	3	3.6%
No answer	1	1.7%	1	1.2%
Total	59		84	

ANALYSIS AND CONCLUSIONS

Analysis of these results show that business owners in non-MSA areas consistently use the internet less than their urban counterparts do. Rural respondents were almost twice as likely to report that they never use the internet for business, and about one-third as likely to report that they use it for business constantly. Similar proportions were evident in personal use of the internet, although the percentage of both metropolitan and non-metropolitan respondents reporting "never" and "constantly" were slightly smaller in both cases. One reason for less use of the internet in rural areas may be lower level of access to broadband rather than dial-up service. However, over half of the MSA respondents did not have broadband, indicating this is not a necessity for business or personal use of the internet.

Online banking has yet to catch on with many business owners as most respondents did not engage in this activity. However, urban business owners were more than twice as likely as rural respondents to use online banking. Although the reason for using or not using online banking was not asked in the survey, it is possible that rural business owners prefer to bank in person at a community bank. This may be one way business owners create and maintain social networks that have been shown to be important to them (Robinson, 2001; Sullivan et al., 1997).

With 36.3% of non-MSA respondents reporting that their business has a web site, this is one area where rural business owners are using the internet more. However, this proportion is still considerably less than the 53.8% of MSA businesses that have web sites. This represents a largely untapped opportunity for rural businesses. With a web site, a rural business could reach out to both local and non-local shoppers. For easily shippable items, rural businesses could greatly expand their markets. However, business owners apparently do not realize the potential markets that could be reached considering the large majority (76.3% of the non-metropolitan and 69% of metropolitan) business owners who do not have a web site see no need for one. Furthermore, approximately half of business owners without a web site report they will never have one. Business development providers could provide education in this area, although a sizeable segment would probably not attend training due to a perceived lack of time.

The literature on small business in rural areas leads to conflicting conclusions as it is clear that rural small business owners, or potential small business owners, face many obstacles due to their locations. These results show that broadband access is more prevalent in urban areas, but not a requirement for a business to have a web page. This study was based on a nationwide survey, but included only 171 non-MSA respondents, reducing the amount of testing and analysis that could be done on sub-categories such as respondent with broad band access or with a web site. Future research should further examine this issue by studying a larger sample that would allow for detailed analysis.

REFERENCES

Clark, T., & James, F.J. (1992). Women-owned businesses: Dimensions and policy issues. *Economic Development Quarterly,* 6(1), 25-40.

Fendley, K., & Christenson, J. A. (1989). Rural reflation: An idea for community development. *Journal of the Community Development Society*, 20(1), 103-115.

Henderson, J. (2002). Building the rural economy with high-growth entrepreneurs. *Economic Review*, 3rd Quarter, 45-70.

Hout, M. & Rosen, H. (2000). Self-employment, family background, and race. *Journal of Human Resources*, 35(4), 670-692.

Jack, S. L., & Anderson, A. R. (2002). The effects of embeddedness on the entrepreneurial process. *Journal of Business Venturing*, 17, 467-487.

Kliensen, K. L. (2003). Was 2sK behind the business investment boom and bust? Federal Reserve Bank of St. Louis, January/February. Retrieved February 3, 2004, from http://research.stlouisfed.org/publications/review/03/01/Kliesen.pdf.

Lichter, D.T. (1989). The underemployment of American rural women: Prevalence, trends and spatial inequality. *Journal of Rural Studies,* 5(2), 199-208.

Lin, X, Buss, T.F., & Popovich, M. (1990). Entrepreneurship is alive and well in rural America: A four-state study. *Economic Development Quarterly,* 4 (3), 254-259.

MacKenzie, L. R. (1992). Fostering entrepreneurship as a rural economic development strategy. *Economic Development Review*, Fall, 38-44.

Robinson, S. (2003). Self-employment in Metropolitan and Non-metropolitan Pennsylvania counties. *Proceedings of the Academy of Entrepreneurship*.

Robinson, S., (2001). An examination of entrepreneurial motives and their influence on the way rural women small business owners manage their employees. *Journal of Developmental Entrepreneurship*, 6(2), 151-167.

Small Business Administration. (2001). *Advancing rural America*. Washington, D.C.: Office of Advocacy.

Sullivan, P., Halbrendt, C., Wang, Q., & Scannell, E. (1997). Exploring female entrepreneurship in rural Vermont and its implications for rural America. *Economic Development Review,* Fall, 37-42.

Tigges, L. M., & Green, G. P. (1994). Small business success among men- and women-owned firms in rural areas. *Rural Sociology,* 59, 289-309.

Tosterud, R. J., & Habbershon, G. (1992). Rural entrepreneurship: A preliminary study. *South Dakota Business Review*, March.

Westland, H., & Bolton, R. (2003). Local social capital and entrepreneurship. *Small Business Economics*, 21, 77-113.

AN INVESTIGATION OF SOCIOLOGICAL INFLUENCES ON THE RELATIONSHIPS BETWEEN PSYCHOLOGICAL TRAITS AND ENTREPRENEURIAL ORIENTATION OF USED CAR ENTREPRENEURS

J. R. Smith, Jackson State University
jrsmith@ccaix.jsums.edu
Donatus A. Okhomina, Sr., Alabama State University
donokhomina@yahoo.com
Alisa L. Mosley, Jackson State University
alisa.l.mosley@jsums.edu

ABSTRACT

The "psychological traits" approach to entrepreneurship has been criticized by a number of researchers as unsatisfactory and questionable (Aldrich & Zimmer, 1986; Gartner, 1988; Low & Macmillan, 1988) in explaining entrepreneurial behavior and performance. "In the trait approach the entrepreneur is assumed to be a particular personality type, a fixed state of existence, a describable species that one might find in a picture in a field guide" (Gartner, 1988, p. 48). Gartner proposed that entrepreneurship should be analyzed from the perspective of what an entrepreneur does and not what he is. This paper will take an integrative stance that personality traits viewed alone as suggested by Gartner (1988) is not adequate to explain the phenomenon of entrepreneurship.

This study fosters the aforementioned assertions that demographics and education, and supportive environmental sociological variables moderate the need for achievement, internal locus of control, propensity for risk taking and tolerance for ambiguity psychological traits as a means of enhancing entrepreneurial orientation. This study empirically examined how sociological factors moderate the relationships between psychological traits and entrepreneurial orientation among entrepreneurs in the used car industry in a "Deep South" Standard Metropolitan Statistical Area (SMSA). The study was conducted in the service industry, sampling used-car entrepreneurs and owners of used-car lots where no research efforts have previously taken place.

Results of the Pearson's correlations largely support significant positive relationships between psychological traits and entrepreneurial orientations. However, the results of the hierarchical regression only provide support for significant relationships for two of the four sub constructs of psychological traits (need for achievement, tolerance for ambiguity) and entrepreneurial orientations. Thus, hypothesis (H_{1a}), which states that need for achievement is positively related to entrepreneurial orientations, and hypothesis (H_{1c}), which states that tolerance for ambiguity is positively related to entrepreneurial orientations are supported. Hypotheses (H_{1b}) and (H_{1d}) are not supported.

Moderated regression results support that, levels of education moderate the relationships of three of the four sub-constructs of psychological traits (internal locus of control, tolerance for ambiguity, and risk taking propensity) and entrepreneurial orientations as hypothesized in $H_{2b,}$ $H_{2c,}$ *and* $H_{2d.}$ *Moderated regression results also suggest that supportive environments moderate the relationships between psychological traits and entrepreneurial orientations as hypothesized in* $H_{3a,}$ $H_{3b,}$ H_{3c}*, and* H_{3d}*.*

Future data-based studies addressing the impact of psychological traits on entrepreneurial orientations should employ a more representative sample from multiple industries with provisions for inter-industry variations in life cycles. The sample for this study is perhaps acceptable since this is an exploratory study but is far too limited industry-wise to draw any lasting conclusions. Hence, a more representative sample should be drawn to provide stronger results. Therefore, findings are only inferred and should not be interpreted beyond generating hypotheses and/or formulating research questions for future research efforts.

Lastly, the psychological construct scales employed in this study have been used in prior entrepreneurship studies. A multiple-item scale should be adapted to measure the respective psychological constructs instead of the single-item scale employed in this study. A multiple-item scale is appropriate for reliability when primary data are collected (Chandler & Lyon, 2001). A major gap and void in the entrepreneurship literature continue to revolve around the lack of a comprehensive theoretical framework but grounded with accumulative fragmentalism in definitions. Future research efforts should attempt to bridge this gap in the literature.

OBSTACLES AND SUCCESSES OF IRANIAN ENTREPRENEURS IN THE UNITED STATES

Keramat Poorsoltan, Frostburg State University

ABSTRACT

Iranian entrepreneurs are primarily concentrated in California, New York-New Jersey area, Texas, and the greater Washington, DC. One may find them in practically any type of business

Iranian entrepreneurs tend toward "solitary" operations, meaning their businesses are mostly proprietary establishments. Despite their occasional setbacks, when inquired about the future, majority of them desire to continue their businesses. A large majority of these business people believe their success is due to their good treatment of customers and the style of management. Intensive competition and cultural differences are the two most important obstacles that these entrepreneurs have faced and had to cope with.

INTRODUCTION

I have adopted a definition used by Longenecker, Moore, and Petty (2000). They define entrepreneur as active owner-managers, and include in their definition second-generation members of family-owned firms and owner-managers who buy out the founders of existing firms adopting this definition, one may include an enterprise that consists of one person-a kind that any aspirant individual may decide to start. It may include firms that employ up to 100 persons. What makes these firms drastically different from the much larger firms is their structure and operations. We are going to see them in the following pages.

METHODOLOGY

For the new Iranian year, (about 1998) I sent a cover letter attached to a questionnaire (consisting of forty principle questions) to the owners of 2060 firms. Over all, after deleting wrong, incomplete, and ineligible questions, I had access to 414 correct answers. I have used these 414 responses for the analysis. A 20% rate of response is a reasonable and satisfactory rate in this type of survey. Although I had informed the respondents that they would stay anonymous, about 45% of them showed interest to be identified.

RESULTS AND ANALYSIS

Type of Business Activities

Table one offers a general view of business variety of the firms in the research. The types of businesses selected by Iranian entrepreneurs cover a wide spectrum. They are not restricted, as Waldinger (1990) says, to the low-cost start-ups of retailing grocery.

Table 1-Types of business activities	
Type of activity	Percentage
Retail	31
Construction: Builders, architecture, Drawing	16
Repair: Electrical, electronic, appliances	11
Artistic: Photography, painting, fashion designs	10
Financial: Insurance, mortgage, stock brokers	9
Wholesales: Parts, food	9
Manufacturing	3
Transportation: Charter, car rental, towing	1
Research and invention: Computer	1
Misc.: Translation, nursery, unspecified	9

Among ethnic groups, some have become predominant in certain economic niches. In explaining why this is the case, Cao (2000) says this prevalence might be due the ethnic group's history (such as Jews in garment industry), factors found in the host country (involvement of Koreans with liquor and wig stores in the US), or their traditional positions in the occupational hierarchies of their homeland before migration. Iranian entrepreneurial community in the United States, according to this survey, does not fit into the framework suggested by Cao. In response to this question "Is this your first business experience?" sixty percent of the survey participants said yes. As such, these entrepreneurs have no previous history of business. Moreover, Iran has no occupational hierarchy, a practice long forbidden after the arrival of Islam.

Many of these entrepreneurs were attracted to business for the reason of economic necessity right after their forced departure or self-exile. Global Entrepreneurship Monitor (Reynolds, 2001) calls these people "necessity" entrepreneurs. They are individuals who need to have some form of work activity. This is in contrast to "opportunity" entrepreneurship where entrepreneurs have other choices open to them but choose to start a new business because of their personal preference.

The Important Centers of Business Activities

Iranian entrepreneurs are scattered in practically the whole continent of the United States. Even if they are heavily concentrated in a few states, no evidence of the "clannish" behavior is present. We can see them in variety of neighborhoods, competing with the establishment, and soliciting the business of non-Iranians.

Reasons for Starting the Business

Entrepreneurs have scores of reasons for starting their businesses. Table two focuses on the topic.

Table 2

Reasons for starting the business

Reason for starting the business	Very important %	Not important at all %
Bored from the previous job	24	46
Availability of capital	21	43
Disappointed from the previous job	29	45
Family encouragement	31	41
Having a special expertise	39	33
Hospitable conditions	45	12
Accustomed to hard work	73	4
Unemployment	19	59
Larger income	74	6
Independence	74	4

In this research, independence and money were declared as very important grounds for starting a business. Some of the respondents were more specific in their answers. These are a few of their rationales: Continuing the family tradition, limited choice of other jobs, desire to be in touch with other Iranians, love of own area of expertise, never being able to work for anybody else, using unexploited time of family and self. Habituated to hard work was another reason for starting a business.

Inc. Magazine (1993) published the result of a research by academics of three universities: The University of Houston, the College of William and Mary, and the University of Southern California. The data, taken from the ongoing study of 138 preventure clients of the University of Houston's small business development center, show that those motivated by the desire for autonomy are disproportionately likely to achieve success, defined as sales in this study.

The respondents in my survey deemphasized the significance of unemployment as a major reason for staring a business. In fact, 59% of respondents belittled unemployment as a major reason. This view is in contrast with findings of Bhidé (2000). He mentions that people with secure, well-paying jobs are less expected to start their own business. The reason is a high opportunity cost for them. Nevertheless, that majority (59%) who disagreed with the notion of unemployment as a very important reason for starting business had a good education. They could not have stayed unemployed. As such, opportunity cost for them must have been significant.

Reasons For Being Successful

These entrepreneurs have been so intimate with their clients that they consider "cost of exit" too high. The cultural habit of Iranians, doing many things at once (polychromic time) has helped a great deal in creating that intimacy. Enter any Iranian-owned business establishment, and you will immediately realize how managers or Iranian employees are handling their customers with multiple demands and questions all at once.

Among the important factors mentioned by Iranian entrepreneurs as reasons for success in business, we find that of the two most important factors stated by them one is related to the internal operations (good management) and the other is concerned with the external relations (good service and treatment of customers). Among all other factors, luck, previous business experience, and no competition fall into the least important factors of success in their ventures. In the true entrepreneurial mindset, these successful businesspeople rely on hard work originating from a triangle of self-confidence (not luck), desire to learn and accomplish (not drawing from the past experience), and challenge (not apprehensive of competition).

We have further evidence in support of the previous statement. Table three expresses how and when entrepreneurs in this study feel energized. Customer satisfaction and more sales are the most gratifying events for them.

Table 3

When is the brightest time in your job

What event did they consider the most satisfying moment	Percentage
Customer's satisfaction	30.0
Big sales	25.0
Extraordinary activity	18.0
Finish the job	11.0
Expansion of the business	7.0
Peace of mind	3.0
Happiness and success of employees	2.0
Starting the business	2.0
Social contribution	2.0

Peter Drucker has pointed out that the basic purpose of an organization lies outside of itself. That outside element, to a large extent, is customer. Why is customer so important? The National Sales Association provides the clue. According to their study as contact between the merchant and customer increases, chances of sales dramatically increase. These are the numbers: 2% of sales are made on 1st contact, 3% of sales are made on 2nd contact, 5% of sales are made on 3rd contact, 10% of sales are made on 4th contact, and at last, 80% of sales are made on 5th-12th contact.

How success is related to business experience? Another well-established myth about entrepreneurship is that considerable experience is required to start a business venture. In reality, experience although valuable, is not necessary. In response to this question: "Is this your first business experience?" sixty percent of participants in this survey said yes, forty-eight percent gave negative response, and only two percent left the question unanswered. These numbers agree with Bhide's explanation. He articulates "few of the Inc. founders I studied had deep experience in their fields."

Factors Making The U. S. Business Environment Different From That of Iran

A number of factors signify the differences between the two business environments. Intensive competition in the U. S. is placed on the top of other differentiating factors. This is a standard feature of a "buyer's market". Abundance of goods and availability of variety of services, regardless of the geographic location, always creates an environment of competition, and at times, intensive rivalry. Hammond and Morrison (1996) have allocated one full chapter in their book describing the "choice" Americans have in their country. They believe "it is in our Constitution".

Iran's business environment, as Iranian entrepreneurs with a previous experience recall it, is markedly different from the America's business environment. Due to shortage of resources to start a business and difficulties that exist in acquiring inputs, those who are lucky to enter the field are almost certain that the rivals will apply little competitive pressure on them. By the same token, in a seller's market, customers have trivial bargaining power. In addition, substitutes are rare and if exist, they enjoy the same near monopolistic position. I was not surprised to read the following statement from one the respondents:" In Iran, we faced far less competition. We could sell whatever we had." Among other differences, cultural difference is obvious.

Difficulties Entrepreneurs Face in Managing Their Enterprises

What factors have been mentioned not important at all by the majority of respondents? These are some of them illustrated by table twelve: Handling of employees (47%), Access to qualified employees (48%), legal issues (51%), competition of other Iranians (63%), and finally, paper work (64%).

In Iran, like many other countries, employers are not allowed to dismiss their employees. Workers have the rights to complain to the labor court, and they normally take side with the employees. Obviously this labor rights would make the employer-employee relations a bit tenuous, making the "handling" more difficult when compared with a country like the United States that employers can fire their workers relatively at will. In a more economically advanced country like the U.S., access to a better- educated and qualified workforce is a very certain situation. As such, Iranian entrepreneurs find availability of a qualified employee to be not a significant hassle. Iranian entrepreneurs have no ethnic enclaves and for this reason, they do not have to compete with other Iranian businesses, or even rely on Iranians as their major segment of their business. Therefore, competition with other Iranians goes really to the bottom of the list of annoying factors in conducting business.

The last factor, paper work, is a perennial problem of less developed countries. These entrepreneurs, possibly to their surprise, have found paper work in relative terms does not obstruct their business operations. In the Silent Revolution (Chickering and Salahdine, 1991) we read suggestions to reform business environment in developing countries. Among the reforms, authors mention repealing policies and regulations (meaning paper work) that obstruct entrepreneurship and enterprises.

REFERENCES

Bhide, A. V. (2000). *The Origin and Evolution of New Businesses*. New York: Oxford University Press.

Cao, L. (2000). *The Diaspora of Ethnic Economies: Beyond Pale*. Monograph.

Chickering, A. L. & M. Salahdine (1991). *The Silent Revolution.* San Francisco: ICS Press.

Hammond, J. & J. Morrison (1996). *The Stuff Americans are Made of*. New York: Macmillan.

Inc. Staff. Reasons for Starting a Business. (1993, July). *Inc. Magazine*, Internet version.

Longenecker, J. G., C. W. Moore, & J. W. Petty (2000). *Small Business Management: An Entrepreneurial Emphasis*. Cincinnati: South-Western College Publishing.

National Sales Association reports.

Reynolds, P. D., et al. (2001). *Global Entrepreneurship Monitor.2001 Summary Report*. London: London Business School and Babson College.

Waldinger, R., et als. ed. (1990). Ethnic Entrepreneurs: Immigrant Business in Industrial Society. Sage.

Authors' Index

Addkison, D 1
Affholder, J 3
Alston, R 1
Audet, J 9
Box, T.M 3
Boyd, M.W 33
Cheek, R 37
Dalby, B 11
Hatfield, R.D 17
Heriot, K.C 17
Holland, R.G 23
Hsu, K 37
Jackson, W.T 39
Jaska, P 11
Kaminski, K.A 23
Klett, T 29
Kunz, M.B 37
Lacho, K.J 1
Lirely, R 31
Lockwood, F.S 31
Maniam, B 29
Mosley, A.L 47
Okhomina, D.A 47
Poorsoltan, K 49
Robinson, S 41
Smith, J.R 47
Strack, R 29
Vaughan, M.J 39
Young, S.W 31