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Myrtle Beach, South Carolina  
April 7-11, 1999

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# **Proceedings of the Academy of Entrepreneurship**

**April 7-11, 1999  
Myrtle Beach, South Carolina**

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# Proceedings of the Academy of Entrepreneurship

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# RIDING THE ROLLERCOASTER OF ENTREPRENEURSHIP

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## CASE DESCRIPTION

*This is an entrepreneurship case. It is designed for an introductory or advanced entrepreneurship course, and could also be used in a new product development course. The case has a difficulty level of 3-4. The case is designed to be taught in eleven 30-minute segments across the course of a semester and is expected to require fifteen to sixty minutes of preparation for each segment. Because the case covers a number of topics faced by would-be entrepreneurs, it can be used at the beginning of multiple class periods to introduce topics to be discussed that day.*

## CASE SYNOPSIS

*This 11-part case follows Chris Johnson, an inventor/entrepreneur who first gets the idea for a new product while in his early thirties. Chris 1) assesses market demand for the product, 2) determines the market potential for, and patentability of, the product, 3) builds a working prototype, and officially files for U.S. patent protection for the product.*

*With the patent pending, Chris: 4) identifies primary markets and potential demand for the product and 5) approaches several companies about the possibility of their licensing the product. Getting no takers but much positive response from industry, Chris 6) decides to approach a successful product development/marketing company about helping Chris get his product to market in return for a percentage of future profits. 7) Evan, the company's president, agrees to take on the product and within a few months, approaches, Alpha, a major company in one of the three markets Chris has identified.*

*At this point, the patent is officially awarded. 8) On Chris' behalf, Evan begins to negotiate a licensing contract with Alpha. After a year and a half the contract is signed, but by this point, and despite a huge investment on their part, Alpha's commitment to the product fades. 9) Chris offers to "sell" the product for Alpha. During this time, another company, Beta, approaches Chris with their interest in licensing and selling the product. 10) Chris accepts Beta's offer, but about the time a new contract is to be signed, Beta announces a shift in product focus. Delays ensue as licensing negotiations shift to a new company—a partnership between a Beta subsidiary and a Canadian manufacturing firm. 11) Shortly after a cancelled contract-signing meeting, the Canadian firm declares bankruptcy, the deal is cancelled, and Chris is faced with an important decision. Should he abandon his efforts to license his product or form his own company to manufacture and distribute the product on his own?*

## **I. A BETTER MOUSETRAP**

Chris Johnson grew up in the automotive industry. Since he was a boy, he worked in all aspects of his father's business, an automotive part manufacturer. After graduating from college with a degree in business, and then working in a bank for almost a year, he decided to start his own company, an imported automotive parts distribution business. Within three years, annual sales went from \$6000 to over \$300,000. While profit margins were healthy (40% v. the industry standard of 22%), the business was undercapitalized and could not support its phenomenal rate of growth. After the demise of his business, Chris went back to work for his father and integrated the remaining inventory and equipment into his father's business.

Chris always had a keen eye for innovation. In his father's business, Chris's idea to computerize manufacturing processes resulted in an 800% increase in output. He implemented a just-in-time (JIT) approach to assembly, substantially reducing inventory and related carrying costs, while also improving delivery time for both standard and special orders. Chris also implemented a new packaging system, one commonly used in the prepared foods industry, to resolve complaints about rust forming on their parts. Made out of cast iron, these parts were prone to rust, particularly in high humidity areas in which many customers were located. By sealing parts in plastic instead of wrapping them in paper envelopes, Chris was able to please customers while simultaneously decreasing packing speed and cost by about 80%. While he enjoyed innovating in and improving his father's business, Chris longed to make it on his own.

One night, as Chris neared the garage door of his home, he fumbled around for his garage door opener transmitter, only to find that the battery had gone dead. Then he got an idea. Why not create a new kind of transmitter that gets integrated into one of many electrical systems in the car? These "clickers," as they're called, have a number of disadvantages and could definitely be improved. They can ruin car visors (which can be expensive to replace), their batteries can go dead (at the most inopportune times), they can be stolen by thieves who then can gain entry into your house, and are sometimes used as playthings by children (which can be dangerous). Chris went to bed that night thinking he was on to something...

### **Chris sees the opportunity for a new product. What should he do first?**

Chris needs to start by defining his new product as clearly as possible. A detailed written description, and graphic or model, would help him to answer questions such as: What is the primary function of my product?, What attributes will it have?, and How will it work? Chris then needs to determine if anything similar to his proposed product already exists, and whether or not something similar has been patented. Is his proposed product significantly better than any existing products? How so? How would customers perceive the product? Another question of crucial importance is, Who would use this product?. Answering this question allows Chris to identify the potential market for the product.

## **II. TO MARKET, TO MARKET?**

Chris mulled his idea over for several weeks before telling anybody. He envisioned a new type of garage door opener transmitter that is mounted under the car's hood and accessed using the car's flash-to-pass (headlight) feature. He began doing some market research. For starters, he paid close attention to the number of cars he saw that had transmitters clipped to the visor or laying on the seat or console. Encouraged by the preponderance of "clickers," Chris went to the library at a local college of business to gauge the market potential. Data available from government agencies and garage-door manufacturers indicated that there were currently more than 30 million garage door openers in use in private residences in the US alone. The statistics were quite promising.

After sharing his idea with a few close friends and getting a positive reaction, Chris contacted a patent attorney to determine if his product idea was patentable. It was. Bob, the patent attorney, helped Chris find an engineer who could help him finalize the design, and drew up a non-disclosure statement for the engineer to sign. Steve, a mechanical engineer, signed the non-disclosure statement and agreed to provide Chris with an estimate of development costs to create a working prototype of Chris's new product.

### **How thorough was Chris's market research? Where else might he have found relevant information?**

A market is a group of potential customers with purchasing power and unsatisfied wants or needs. A new venture is viable only if a market exists for the proposed product or service. Marketing research is the process of gathering and analyzing information about a particular market. Chris relied on personal observation and very limited secondary data sources for his assessment of the potential market. This was a good place to start, but Chris should have invested more time and energy in evaluating the market potential for his product. In general, secondary sources of data are much less expensive to access than new (primary) data. Chris should exhaust all available sources of secondary market data before considering his own market survey. The library of the local business school is a good place to start his search, but there are other sources that provide quick easy access to data. The Internet is an invaluable tool for entrepreneurs looking for free information. Ask students to visit one of the following web sites to get a taste of what is available online: ResearchInfo @ [www.researchinfo.com](http://www.researchinfo.com) , Real Market Research @ [www.realmarket.com](http://www.realmarket.com), or Guerrilla Marketing Online @ [www.gmarketing.com](http://www.gmarketing.com). Professional trade groups or associations are also good sources of information. Chris could have contacted an organization such as the National Marketing Federation (1-800-2-SOLVE-IT) for help with his market research. In addition to secondary sources, Chris could some do-it-yourself market research by talking informally with other entrepreneurs and people in the industry, and getting informal feedback from potential customers. Since administering and analyzing a formal survey can be expensive, Chris should take advantage of other resources first.

**Was it necessary to apply for patent protection? Why or why not?**

A patent is an intellectual property right, resulting from a unique discovery or idea. A patent is granted by the federal government's Patent and Trademark Office (PTO), and provides an individual with exclusive rights to hold, transfer, and license the production and sale of a product or process. In essence the patent gives the holder a temporary monopoly; design patents last 14 years, while all others are for 17 years. Although acquiring a patent involves some additional expense on Chris' part, it helps to ensure that his product has legal protection against imitators. Additionally, the patent process would turn up any evidence of products very similar to Chris'.

**Do you need to have an attorney file for the patent? Why or why not?**

Patent law is a very specialized area, and most inventors do not have the expertise needed to pursue a patent without legal assistance. Before beginning the often lengthy process of obtaining a patent should retain the services of a patent attorney or patent agent who is registered with the PTO. *Only* attorneys and agents officially registered with the PTO are allowed to represent an inventor seeking a patent. Many of the patent attorneys or agents are former patent examiners, and thus have valuable insight into the convoluted patenting process.

**What is the purpose of a non-disclosure statement?**

A non-disclosure agreement helps prevent the theft of Chris' idea. It is a legally binding document that prevents the individuals involved from disclosing any information about Chris' idea to a third party without Chris' consent. If someone were to violate the non-disclosure agreement Chris would have legal recourse to hold that individual accountable.

**At this point, does Chris need a business plan?**

It is never too early to start thinking in terms of a business plan. Unfortunately, many entrepreneurs don't think about developing a business plan until they need to borrow capital. As soon as Chris decides to investigate the potential of his idea he should also be gathering information that will help him through the planning process. Although he is still far from finished making decisions about his product, this type of planning tool will help Chris better prepare for all the stages involved in bringing his product to market. The business plan serves several purposes: 1) describes the vision, mission, and objectives of the entrepreneur, 2) identifies strategies to achieve the entrepreneur's objectives, 3) evaluates the potential of a new product or service, 4) serves as a basis for attaining capital, and 5) provides a baseline for continued evaluation and control as the venture grows.

Chris should start seeking out information, particularly free information, that will help him to make better decisions about his venture. One of the best free sources of information for new entrepreneurs is the Small Business Administration. Chris could call (1-800-827-5722), FAX (1-800-697-4636), or visit their website @ [www.sbaonline.sba.gov](http://www.sbaonline.sba.gov). Free materials available from the SBA include a "Start-Up Kit," sample business plans, information on obtaining patents and trademarks, and names of outside resources. Given that Chris lives in a city with a college of business, he might

check to see what resources are available there. Many colleges and universities have a Small Business Development Center on site that will provide start-up information, help with business plans, and even free or low-cost counseling.

### **III. IF YOU BUILD IT, THEY WILL COME**

Within a week, Steve informed Chris that he would develop a working prototype of this new type of “clicker” for \$80,000. He said he based his price on market potential! Chris was shocked and outraged, but Steve would not budge on his price. Chris then approached a friend who was knowledgeable about computer hardware to show Chris how to build the basic circuit that was needed. After several attempts, Chris connected this prototype to a spare garage door opener, attached the leads to his car’s headlights and tried it. It worked perfectly! He now had a working prototype to patent, and it only cost about \$200 to develop.

The working prototype provided Bob, Chris’s attorney, with useful information and detail needed for the patent application. After several iterations, and over \$5,000 in legal and filing fees, the patent was officially filed. In the interim, Chris hired Allan, an electrical engineer about to be laid off from the aerospace company in which his wife worked, to continue refining the device. After Allan signed the non-disclosure agreement, Chris explained how he thought the device’s design could be simplified, and therefore cheaper to manufacture. Cost was an issue since Chris knew his product would eventually compete with “traditional” clicker replacement units, which ranged in price from \$20-\$40. Allan managed to make it simpler and therefore cheaper to manufacture. Allan charged Chris \$800 for his services, but offered Chris the option to not pay him in exchange for a percentage of future profits. (He also had some sense of the great market potential.) The deal was tempting to a cash-strapped Chris, but he decided to pay Allan his fee.

#### **Was it necessary to have a working prototype? Could a detailed drawing have sufficed?**

Building a prototype made Chris’ idea tangible. The prototype makes it much easier to convey the function and design of the product to the patent attorney, and in the future to potential partners, investors, manufacturers, and licensees. Another benefit of the functioning prototype is that it increases Chris’ confidence in the viability of his idea, and provides information about how the design can be fine-tuned.

#### **How should Chris go about establishing a price for his new product?**

There are a number of factors Chris should consider when determining the final price for his product. These factors include: manufacturing costs, market supply and demand, anticipated sales volume, competitor’s prices, economic conditions, consumer perceptions, and desired image. There is no one best price for any new product or service, rather there exists an acceptable price range. That acceptable price range is the area between the price ceiling defined by consumers and the price floor defined by costs associated with producing the product or service. Entrepreneurs pricing a new product should try to meet the following three goals: 1) to get the product accepted by potential customers, 2) to maintain market share as competition grows, and 3) to make a profit. To ensure that

this third goal is met Chris needs a tool to evaluate at what point his product will become profitable. This is called break-even point computation, or break-even analysis.

A commonly used approach to break-even analysis is the contribution margin approach, where contribution margin is defined as the difference between the selling price and the variable cost per unit. In order to calculate the break-even price, Chris will have to determine variable costs such as materials, labor, and selling costs. Chris must also consider which of the more common pricing strategies (penetration, skimming, slide-down-the-demand-curve, or follow-the-leader) is most appropriate for his product. To help students better understand the process Chris will use, focus on textbook sections dealing with pricing strategies and break-even formulas.

### **What should Chris do next?**

Up until now Chris has focused on his invention; designing, developing and patenting his product. He has defined an end-user market and determined that there will be sufficient demand for his product. He has also gone through the steps necessary to determine a break-even price and develop a pricing strategy. Chris now must determine the best method to get his product out to the consumer.

## **IV. DECISIONS, DECISIONS...**

With his patent filed and pending, and a working prototype in hand, it was time for Chris to determine the best way to bring his innovative “clicker” to the marketplace. One option was to launch the “clicker” business on his own. However, this approach involved obtaining quite a bit of start-up money either through a bank (which came with great personal financial risk should the venture fail) or an investor/venture capitalist (to whom Chris would have to surrender part of product ownership and control). A second option would be to find an existing company to license his product and pay him royalties over the course of the patent, which was to be granted shortly. This route might be the safest, although perhaps less profitable, option. After all, now that Chris was married and thinking about having children, he realized that his earlier “bet the house” form of entrepreneurship had to be tempered. He decided to go with the second option.

With the decision to take the licensing route made, Chris thought long and hard about which markets were appropriate for his product and what the demand would be. He identified three primary markets for the product: 1) the mobile electronics market, in which manufacturers, e.g., car stereo, alarm, and radar detector, distributed their via retail (e.g., Circuit City, Pep Boys) and catalog (e.g., The Sharper Image) outlets; 2) the home improvement/“do-it-yourself” (DIY) market (companies who manufacture products for home improvement stores and discount department stores), and 3) automakers, for whom this product could be installed as original equipment (OEM) or at the dealership upon purchase (similar to Lo-Jack®).

**At this point Chris felt he had two viable options: 1) to manufacture and market the product himself, or 2) to find an existing company to license his product. How might Chris evaluate these two alternatives?**

Financial considerations play a large part in this decision. If Chris had personal savings, investments, or a retirement fund, he might be able to finance his start-up with minimal borrowing. However, without personal resources to use as start-up capital, Chris would have to obtain outside funding if he wants to manufacture and sell the product himself. There are several options Chris might consider, including borrowing money from a bank (or possibly family or friends), or raising venture capital. Borrowing money means incurring a large debt that must be repaid regardless of whether or not Chris' venture succeeds. This option entails a great degree of personal risk for Chris and his family. Another alternative is to seek out venture capital. Under this type of arrangement Chris could access capital in exchange for a share of the profits should his venture be successful. This option is less risky for Chris in that the venture capitalist assumes some of the risk of financial loss should the venture fail. But this option still puts the bulk of the responsibility for developing, manufacturing, and marketing the product on Chris' shoulders and entails giving up a significant share of potential profits. A third option would be for Chris to seek out one or more partners willing to buy into the venture and contribute capital as well as expertise in creating and then managing the business. Again this would lessen Chris' personal financial liability, but would mean sharing profits and control over development and sale of the product.

A licensing agreement is attractive to Chris for many reasons. Most important to him right now is that he would not be required to invest much more money in getting his product to the market. This option is much less risky financially, but there is a big trade-off. In exchange for royalties paid by a company for the use of his product design, Chris gives up control over decisions about how the product is developed, manufactured, and sold in the market. If he chooses well, and the company is successful, Chris can sit back and cash his royalty checks. However, the company that contracts to license his product will make the decisions about producing, selling, distributing, and advertising Chris' product. Chris may not agree with the decisions the licensee makes regarding his product, and it is possible that the company will be less committed to seeing the product succeed than would the entrepreneur who invented it.

Again, this is a decision juncture where Chris could have benefited from seeking out advice about his options. Before assuming the financial situation constrained his choices Chris should have checked out all the possibilities. A well-informed decision is less likely to be regretted later. To help answer his financial questions, Chris might have contacted one or more of the following: 1) to find out what money is available through the SBA, contact the National Business Association @ 1-800-456-0440 for a free copy of *First Step Review*, 2) to contact private investors use a source such as Venture Connect @ [www.texel.com](http://www.texel.com), or 3) call 703-448-6124 to find out the location of the nearest Small Business Development Center.

**Are there other potential markets for Chris's invention that he has not considered?**

These three markets provide access to much of the potential end-user market Chris has identified. However, he might have considered retail auto parts chains or catalog distributors of auto accessories.

**V. PEDDLING HIS WARES**

Of the three potential markets identified, Chris selected the consumer electronics market, in particular the mobile electronics market, as his primary target market. This made sense to him for a number of reasons. Even though it might be possible to create higher visibility in the do-it-yourself/home improvement market, there might be many people who feel uncomfortable about installing an electrical device under their car's hood. By licensing his product to manufacturers who sell to mobile electronics retailers that have installation available (e.g., Circuit City), Chris could improve the odds of consumers correctly installing the device while also providing them the option to purchase and install it on their own. Now it was time to determine which manufacturers to target.

Chris researched several electronics-oriented magazines; some of these targeted end users, others targeted resellers and distributors. Chris approached two firms which manufactured radar detectors about the possibility of licensing his product. He was careful to have each sign non-disclosure agreements. One of these firms said they were interested but "didn't know how to market" his product. The other firm said they would not produce or sell anything that wasn't designed in house. Chris was becoming impatient with the process...

**Do you think Chris selected the market with the most sales potential for his invention? Why or why not?**

This question has no definitive answer. The key here is to get students to think about the attributes of each of the three markets defined by Chris, and any others they feel may have potential. Encourage students to make a chart that compares the pros and cons (strengths and weaknesses) of each market. This is an excellent time to talk about how to position products in the market. Chris choice will largely impact the way his product is perceived by consumers (e.g., as an electronic device used in a car, as an automobile accessory, or as an option available when purchasing a car).

**Despite the protection that the non-disclosure agreement offered, were there any other safeguards Chris could have implemented to ensure that companies selected as potential licensors would not "steal" his idea?**

One way to prevent unlawful "borrowing" is to limit the amount of information that is disclosed about the product, especially early on in the process. Information about what the product does, and its unique value to potential customers, should be the focus when first trying to generate interest from licensees. Design specifics and technological details can be discussed later if there is serious interest on the licensee's part. Chris would also want to include a lawyer in any contractual negotiations to make sure his interests are protected.

**What should Chris's next step be?**

Once again, Chris needs to be actively exploring all of his opportunities. The Internet offers a wealth of information about entrepreneurial ventures of all kinds. At this point Chris needs some help in identifying viable alternatives. Seeking out other entrepreneurs who have licensed their designs would have given Chris some insight into the process. And again, sources of free information, such as the SBA and SBDC could have helped Chris find the contacts he needed. This is also a good place to re-emphasize to students the necessity of a business plan. Writing a business plan would have helped Chris to think through his options earlier in the process, and would have forced him to seek out additional sources of information.

**VI. IF AT FIRST YOU DON'T SUCCEED...**

Several weeks passed. The patent was still pending. Chris was very anxious to get his product to market, especially given his growing mound of debt. At this point, Chris had sunk about \$10,000 into legal and design costs for his product. Everyone that knew about Chris's idea thought it was "hot" and that Chris would "make millions." At the moment, however, no one was stepping up to the plate to make it happen.

One day, while reading an industry magazine, Chris learned about a guy named Evan who started a company to help inventors get their products to market. Despite his degree in marketing and experience in the marketing field, it took Evan nearly five years to get his invention to market. Chris figured that if someone with a marketing background had this much difficulty, many others were likely to face an even tougher battle, so he decided to enlist Evan's help. Chris contacted Evan, and within a few weeks, they met and talked about working together. Evan explained that he had been approached by numerous inventors after that article appeared. However, he turned down most of these inventors, focusing only on those projects with a high probability of success, which he thought Chris's product had. If Evan agreed to work with Chris, he would do so without any upfront fees. Instead, they would be given an agreed-upon percentage of future profits as the return for their investment of time, money and know-how.

**Evaluate Chris' decision to take on a marketing partner.**

It is clear Chris needed some help at this point, and Evan's prior experience could prove very valuable in dealing with potential licensees. But Chris needs to think seriously about all of the repercussions of having a partner. Could Chris benefit from someone like Evan's experience without giving away a share of his potential profits? Where else could Chris go to learn from other entrepreneurs? Options include SBA or SBDC counseling or mentoring programs, trade publications, and on-line chat rooms for entrepreneurs. Discuss with students Chris' tendency to "leap before he looks," making decisions before he has gathered enough information to make a really well-informed decision. Chris needs to evaluate carefully the potential advantages and disadvantages of having a partner. Benefits of a partnership with Evan include: Evan's expertise in areas Chris is less knowledgeable about, Evan's existing contacts in business and industry, a potentially shorter time frame in getting the product to market, and shared responsibility for the product's success. Potential

drawbacks of the partnership include conflicts of interest, different levels of commitment to the product, lack of clarity on the role and responsibilities of each partner, and a lesser share of potential profits. Chris should also talk with his lawyer about any potential partnership to make sure he clearly understands all of the legal ramifications.

**What kind of partnership arrangement would you offer Evan? Explain.**

There is no one best partnership agreement. Each situation is unique, and many factors contribute the success or failure of any partnership agreement. Before drafting an agreement Chris and Evan should sit down separately and write out what they hope to gain from the partnership. Together they should clarify what each person will contribute (tangibles and intangibles) to the partnership, and how tasks and responsibilities should be divided. The two men also need to have a very frank discussion about how any potential profits will be divided. And last, but not least, each of them needs to consult with his own lawyer to understand the legalities involved. All of this should be done before any formal commitment to a partnership is made. This question gives students an opportunity to explore all of the considerations associated with partnering. Ask half of the students to assume the role of Evan and half to assume the role of Chris. Form dyads and ask the students to role play the partnership negotiation.

**VII. 50% OF MILLIONS IS BETTER THAN 100% OF NOTHING**

Chris struck a deal with Evan. After much deliberation, he accepted Evan's 50% fee (50% of future profits for the life of the patent), based on his belief that 50% of millions is worth a lot more than 100% of nothing. If this guy were as good as he appeared, and could get Chris's product into the marketplace more quickly and successfully than Chris could without a marketing partner, it would be worth it. In addition, Evan would take whatever steps necessary to get the product to market without any payment for his services. He got paid when he achieved results.

Within a month, Evan told Chris that he was thinking of approaching Alpha, a major manufacturer in the home improvement/do-it-yourself (DIY) market, who happened to be in the same town as Evan. With nothing to lose, Chris agreed, even although Alpha was not in the primary market Chris had originally targeted. In fact, Alpha was in the smallest of the three markets Chris previously identified. Upon meeting with Evan, Alpha executives were extremely enthusiastic and interested in a licensing deal. Apparently, garage door openers had remained basically unchanged for the 50+ years they've existed. The executives with whom Evan dealt saw Chris's product as a major innovation--one which could inject new life into a stagnant market. Before signing a licensing agreement, however, Alpha wanted to "test" the patent's strength (could other firms develop legal "knockoffs"?) as well as the market viability. Alpha's engineers worked on the first issue, while their marketing team worked on developing a survey to determine the percentage of the current Alpha garage door opener customers who would switch to the new product and at what price.

**Evaluate the agreement Chris made with Evan? Would you have done anything differently?**

Chris probably made a good choice in signing an agency contract, rather than a partnership agreement, with Evan. In this way Chris retains full control over his product. The agency contract states that Evan will be paid a commission on any royalties paid by a company with whom Evan negotiates a contract for licensing Chris' product. This makes Evan's role more of a contracted sales representative. The major benefit to Chris is that Evan is not paid until the licensee sells the product. This alleviates additional cost concerns for Chris.

**While Alpha was testing the viability of a licensing deal with Chris, is there anything that Evan and Chris could have been doing to speed the process?**

Chris and Evan seem to be content with only one potential customer. Had they continued to pursue other licensees while Alpha completed an evaluation, they may have found additional interested companies. Knowing they were competing for the product with other interested companies may have spurred Alpha to act more quickly, and may have given Chris and Evan some leverage in negotiating a contract with the company.

**What factors would be considered when negotiating a licensing agreement of this type?**

Negotiating an agreement of this type requires the expertise of a lawyer. Alpha certainly will use legal advisors to shape the deal, and Chris and Evan should likewise protect their own legal interests. Factors to be considered in the process include: control of existing product design and any future improvements, control of manufacturing and marketing decisions, and amount and terms of royalty payments.

**VIII. POUR THE CHAMPAGNE!**

Over the months that followed, Alpha found the patent--which was officially awarded by the U.S. Patent Office by this time--to be rock solid. In addition, the market research firm they hired to conduct surveys of current customers, found that 30-40% of those questioned would switch to Chris's product over the current type of garage door opener transmitter. (They were hoping for at least 5-10%.) At that point, with over 30 million garage door openers currently in use, they estimated the potential for immediate sales was 9-12 million units. In addition, another 2.5 million garage door openers were sold each year, either as replacement units or for new construction. Alpha, currently a close second in market share to the industry leader (together, they had about 80% of the market), estimated they would easily sell 600,000 units per year. That was without any sales effort, and at a retail price of \$50.

Finally, after about a year and a half after the initial contact with Alpha was made, the contract was signed. Chris received a substantial initial bonus from Alpha (which was shared with Evan), and was to receive quarterly royalties for number of units sold. While Chris and his wife celebrated, little did they know that turnover in the sales and marketing personnel would result in marginal commitment from Mark, the third sales/marketing manager left in charge of the product. His lack

of interest in an enthusiasm for the product proved to be disastrous. If customers called for the product, he would sell it to them, but he was not going to exert any effort to "market" the product. Later, Mark bluntly informed Chris that he was non-plussed about the product when he first heard about it, and his input was not sought during the time Alpha evaluated and agreed to license the product. At this point, Alpha's investment in the product--whose potential sales would easily double the annual revenues of this division--was at least two million dollars. In addition, the product had won numerous awards from consumer and industry organizations. Those who knew about the product wanted it, unfortunately, many didn't know it existed.

**Can Chris feel secure that the product is now on its way to market? Why or why not?**

It's tempting at this point for the entrepreneur to become less involved in the day-to-day marketing of his product. This is natural given that the company has made a commitment to take over these responsibilities. At this point, Chris may feel that it is in Alpha's best interest to aggressively market his product to realize their sales/profit goals. However, the danger is in distancing oneself to the point of becoming unaware that the licensee may not fulfill its obligation to the product.

**If you were the brand or product manager for Chris's product, what would be your marketing plan?**

This question offers an opportunity to discuss an effective marketing plan for a new product or service. The marketing plan should be based on specific product-related goals. The following five steps should be included in developing the market plan: 1) Appraise the strengths and weaknesses of the market, consider elements such as product design, reliability, durability, price/quality ratio, and production capacities and limitations; 2) Develop marketing objectives and specific sales plans. Sales goals should be clearly stated, measurable, and within the company's capabilities. 3) Develop product/service strategies. Begin by identifying end-users, wholesalers, and retailers, and their specific needs. Then match the product's design, features, cost, etc. to those needs. 4) Develop marketing strategies to achieve sales goals and other marketing objectives. These strategies may include advertising, sales promotion campaigns, trade shows, direct mail and telemarketing. 5) Determine a pricing structure appropriate to potential customers as well as the type or quality of products/services that will be provided.

**What, if anything, could/should Chris have done to light a fire under Alpha and the resistant sales manager to get him to sell his product?**

First, Chris has to identify the appropriate person within the company to address his concerns. It may be difficult for Chris to intervene since he has relinquished control to Alpha over all manufacturing and marketing decisions. Emphasize to students the importance of having a liaison within the licensed company with whom to discuss issues and concerns once the contract has been signed. If agreeable to Alpha, Chris may want to contact Mark directly to elicit information about the current status of the product. He could ask Mark questions such as: Are there any problems with

the product that are preventing it from being marketed? and What do you perceive is the market potential for the product? At this point, should Chris feel that Mark is not expending due effort to market his product, Chris may want to discuss the problems with someone higher up in the organization and who championed the product at the outset.

### **IX. RATHER “FIGHT” THAN SWITCH?**

Chris was frustrated with Alpha. At the same time, he wondered whether the grass would be greener with another firm. Ending the licensing agreement with Alpha and starting the process from scratch with another company could cost him a year or more. What Chris wanted most was to get the product to market. Then he had an idea. If "selling" the product was the issue, what if he could set up a company to market and distribute his product that Alpha continued to manufacture it? When Mark finally returned Chris's calls, he seemed responsive to the idea. Mark gave Chris sales literature and lists of various retailers, and led Chris to believe his idea would work, with increased sales benefiting both Alpha and Chris. Chris set up a company and started contacting and sending Alpha-designed sell sheets to manufacturers' representatives ("reps") and "repping" agencies in the mobile electronics industry. The response was tremendous. Many of the reps Chris contacted even offered to cut their commissions (average of 6%) to "get" the product. Chris made arrangements to exhibit his product at the annual Mobile Electronics Show. Just before the show, he got a call from Beta, a major player in the mobile electronics market (e.g., car alarms, radar detectors). Apparently, one of the reps he contacted told Beta of this product, and Beta was very interested in licensing Chris's device. Chris was particularly excited since Beta was a well-known company in the primary market he had originally targeted. Two months before the show, Chris flew cross country to meet with Beta. They were ready to begin negotiating a licensing contract. To do this, Chris needed to modify his agreement with Alpha and make it non-exclusive. Chris thought that Alpha would probably not resist doing this, but Chris would have to give up the minimum annual royalty he was receiving from the company.

Chris was overwhelmed by the response to his product at the Mobile Electronics Show. People were ready to place orders right then and there. It seemed possible to continue marketing Alpha's product to the growing list of interested reps while arranging a second, non-exclusive licensing deal with Beta, assuming his contract with Alpha could be modified as such. Chris called his contact at Alpha and was surprised to learn that there was yet another turnover in the sales manager position. This woman knew nothing about Chris's arrangement to sell his product for Alpha; she only knew that the project had been shelved. Chris was furious, but grateful that he still had Beta.

#### **How might Chris's plan to sell his product for Alpha change the current situation?**

Currently, Chris is extremely frustrated with Alpha's efforts to bring his product to market. Chris' decision to augment Alpha's sales efforts has several potential benefits. First, doing this empowers Chris, in that he regains a degree of control over the marketing of his product. Increased involvement in marketing decisions may refuel his own interest in, and commitment to, the product. Second, Chris's involvement takes sole responsibility for sales off of Alpha (specifically Mark), and

may result in additional cooperation and support from the company, particularly if sales begin to increase. Another benefit for Chris is increased interaction with industry players that could provide valuable contacts that may lead to future sales and/or sales agreements.

### **How should Chris respond to Beta's overtures?**

Given Chris's frustration with Alpha's marketing efforts, interest from Beta may tempt him to abruptly change course, possibly even prematurely abandoning his newly conceived sales management plan. Discuss with students how Chris's tendency to make impulsive decisions could cause him to make an emotional decision regarding Beta (e.g., "The grass must be greener...") before carefully evaluating all his alternatives. On the one hand, Chris may have reason to believe that working with Alpha may not result in the success he hopes for. Beta could be just the opposite of Alpha, or it may be very much the same. There's no guarantee that an arrangement with Beta would have significantly better or worse results than the one Chris has with Alpha. At this point, Chris needs to step back and carefully evaluate the impact a new and/or additional licensee would have on his current sales efforts and existing agreement with Alpha. Although Chris wants to give Beta a positive response, he needs to give himself time to consider all his alternatives.

## **X. TO MARKET IN 90 DAYS?**

Chris dropped the idea of selling his product for Alpha and focused entirely on negotiating an agreement with Beta. Besides, Beta sold Chris on the idea of working with them because unlike Alpha, Beta was young, quick-moving and "hungry." They had recently been bought by a venture capital firm and were looking to increase their growth and revenues substantially. Beta "promised" they could get his product into the market within 90 days. Based on their estimates, the product would probably be introduced in time for the lucrative Father's Day "sales event," and would certainly make it in time for the even more lucrative Christmas season.

As negotiations with Beta continued, licensing contracts were sent back and forth. While most of the contract terms seemed "boiler-plate" or standard, every detail was gone over with a fine-tooth comb. At this point, Chris realized that he hadn't heard from Evan in almost a year. The efforts Evan promised when he agreed to work with Chris seemed to cease once he completed negotiating the licensing contract with Alpha. Once the money started trickling in, communication with Evan was inconsistent and infrequent. According to the terms of Chris's partnership agreement with Evan, Evan would not receive any part of monies gained from a licensing agreement with a new firm.

Chris was expecting the finalized contract from Beta any day. Suddenly, Chris was told that the focus of the company shifted (the bad news), but that his product would be manufactured in Canada by a partnership between a Beta subsidiary and a manufacturer in Canada (the good news). This change involved yet another delay, particularly since this Canadian firm had to be brought into the licensing agreement.

**Evaluate Beta's promise to get Chris's product to market within 90 days.**

His prior experience with Alpha should have made Chris a little more skeptical about accepting claims such as this at face value. Even though the company may have the best of intentions, the 90 day goal won't happen without ongoing monitoring of the marketing strategy. Therefore, Chris may want to retain the ability to act in an advisory capacity as Beta develops its marketing plan. Chris also needs a formal mechanism for tracking the progress at Beta, e.g., weekly status reports, attending planning sessions, company liaisons.

**Should Chris have given up on working with Alpha once Beta indicated interest?**

It was probably premature for Chris to have abandoned his involvement with Alpha's marketing efforts before there were any tangible results from Beta's efforts. Additionally, Chris could benefit from maintaining his contacts within the industry should the arrangement with Beta not come to fruition.

**XI. YET ANOTHER CURVE BALL**

Months had passed. Finally, it appeared as if an agreement was reached on all sides represented in the licensing arrangement. The key players in the Beta/Canadian firm partnership invited Chris to visit them at a convention they were attending in order to sign the contract and begin working together. At last! Chris finally saw the light at the end of a long, protracted tunnel. He drove four hours to the convention, only to find that the CEO of the Canadian firm was unable to make it to the meeting. Chris was told that he was in his hotel room elevating the foot he injured the previous day. Chris offered to go the Canadian CEO's hotel room to sign the contracts, but was assured and reassured that all was ready to go, and that they would overnight the signed documents for Chris's signature as soon as they returned from the convention.

It had been a week and the documents still had not arrived. Chris called and was told that everything was fine, reps were in place, and things were moving ahead. More weeks passed. This time Chris was told that there were still a few points in the contract that needed to be ironed out. Chris was getting suspicious, but at the same time, he felt powerless in the process. Several more weeks passed, and still no contract. Months after the convention, Chris was informed that the Canadian firm had filed for bankruptcy, causing Beta to lose over a million dollars and effectively ending the licensing arrangement. In short, the deal was off. At that point Chris had had enough. He realized that he had to decide between one of four options: (1) give up on the patent idea and get a "real" job; (2) sell the patent; (3) find another company to license his patent and manufacture his product; or (4) raise the necessary capital to start his own business to manufacture and distribute his product.

**Which of these options would you suggest and why? Evaluate the strengths and weaknesses of the four options presented.**

Ask students to evaluate the strengths and weakness of each option. Issues to address may include discussions of time-tables, risk, security, ownership, compensation, sunk costs, and opportunity costs, as well as less tangible factors such as personal satisfaction, sense of achievement, and fulfilling a dream. You may want to inform students that the person on which the case is based actually decided to create a new business on his own, raising capital from a both an investor and a bank.

# CLINICAL ENTREPRENEURSHIP: INTRODUCING 'ETHICS EQUATION' TECHNOLOGY TO ENTREPRENEURSHIP EDUCATION

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## ABSTRACT

*The focus of this paper is on the direct observation of introducing applied ethics to entrepreneurship studies, the results, and how it was implemented by four Entrepreneurship class sections of upper division (third and fourth year) college students during each of four consecutive semesters, beginning in the summer of 1997. Each class, acting independently, engaged in developing concepts of 'ethical' entrepreneurship (hereinafter, referred to as the 'Entrepreneur Ethics Equation'). Each student was asked (not required) to implement an applied ethics methodology, one that would evolve into an ongoing ethics strategy for their individual and team-oriented new venture creation. Each class section, with the exception of the first, was the direct beneficiary of the 'Entrepreneur Ethics Equation', developed and introduced by each of preceding classes. Each class was free to develop the formula of the 'Entrepreneur Ethic Equation' in as many different ways as there were student teams to create and develop it. The result of these observed experiences shows a rapid developing ethical awareness among students in an area where entrepreneurship and ethics bridge-models seem to be rare, illustrated in brief chapter overviews, or worse, non-existent.*

*A key method for facilitating the dynamic of an 'Entrepreneur Ethics Equation' was to weave a role for it in a contemporary business plan model, the so-called "road map" for today's emerging entrepreneurs. Integrating ethics into "business plans" has been, and continues to be, practically unknown in training methodologies both among adult professional trainers and academics. This study, however, revealed that when students were exposed to this new learning technology, they embraced the 'ethics' strategy generously. These 'equations' were incorporated in major plan development efforts throughout student term-ending business plan projects; both oral and written. More significantly, it was also observed that the adoption of the 'Entrepreneur Ethics Equation' was easily brought to, and adopted by, students from the most available of sources; a simple WEB page model. Designed specifically to support such a plan, the Internet based feasibility and business plan ethics module was created solely to provide an ethics model and social contract scenario for student adoption of the "Entrepreneur Ethics Equation".*

*In conclusion, the paper examines, compares and summarizes the role of the Entrepreneurship instructor and the students in developing the 'Entrepreneur Ethics Equation' model and the anticipated and expected outcomes observed over four semesters. Each class program is viewed in the light of the "Entrepreneur Ethics Equation's" maturity and the change this technology brought to each succeeding class in Entrepreneurship.*

# **RECRUITING AND SELECTING QUALITY EMPLOYEES: A GUIDE FOR SMALL BUSINESS AND ENTREPRENEURS**

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## **ABSTRACT**

*The present paper provides information to small business owners on how to recruit and select quality employees. The recruitment and selection options available to small business owners will be presented and discussed. This should provide some insight for the small business owner on the human resource management practices that can enhance the business.*

## **RECRUITING AND STAFFING OPTIONS FOR SMALL BUSINESS OWNERS**

Recruiting and selecting quality employees is a challenge facing small businesses. The better the job done by a small business during recruitment leads to better options and alternatives when selecting among job applicants.

To further complicate matters, small businesses usually only have a few employees. Because of this, it is difficult to run the business, complete paperwork, and continue to manage employees. Yet, to ignore your human resources can hurt a small business tremendously. Given this challenge, the first questions a small business owner should address are:

- Should I conduct recruitment and selection independently?
- Should I use an external agency to perform these functions?
- Should I conduct some tasks; use an external agency for others?

The questions posed indicate that a wide variety of approaches can be taken. In order to move forward, the small business owner must decide how to pursue the recruitment and selection of employees. The remainder of this paper will address these questions.

## **RECRUITMENT AND SELECTION CONDUCTED INDEPENDENTLY**

**Job description.** The first step to recruiting and selecting employees involves analyzing the job to be filled (Fuller, 1993; Harris & Arendt, 1998). The small business owner should consider what the job entails that the employee will be performing, the working conditions, and any knowledge, skills or abilities that the job requires. Once these areas have been identified, the small business owner should then develop a written job description. This is a written document, indicating the job title, the duties and functions of the job, as well as the working conditions. In some cases the

job description will also indicate to whom the employee reports, and which jobs the person in the position will supervise.

The job description is the foundation of many good human resource practices. This information can assist in the recruiting of employees, as well as further indicating which selection techniques might used to assess applicants.

Recruitment. In order to get the best applicants to choose from, a small business owner needs to do a good job of recruiting applicants. The first step is to refer to the job description, as it indicates what knowledge, skills and abilities applicants need to successful on the job. Based on this information, the small business owner can best choose from among the various recruitment techniques.

Advertisements are a common way to recruit employees (Love, 1998). Small business owner should provide a brief overview of the job in the advertisement. Advertisements offer several benefits to small business owners, including reaching a large number of potential applicants while being relatively inexpensive. Additionally, small business owners can be creative when placing advertisements. Some organizations have placed advertisements in sections other than the classifieds section, as it catches the attention of readers (Maynard, 1997). Others suggest advertising in organizational newsletters as an alternative (Fyock, 1992).

The downfall is that one advertisement can lead to as many as 100 job applications, many of which are from unqualified applicants. There are steps a small business owner can take to reduce this number. The advertisement can contain a realistic job preview (RJP), which is simply stating both the good aspects of the job as well as the bad aspects of the job (Meglino & DeNisi, 1987). This will cause some individuals to shy away from a job with aspects the individual does not wish to deal with. By utilizing an RJP, an organization eliminates spending time recruiting and selecting individuals who are not interested in certain aspect of the job, saving time and money for the small business owner. Additionally, RJP's do not drive away all of the highly qualified applicants. Actually, the highly qualified applicants that are hired are much more likely to be successful, satisfied and motivated than the applicant who assumes that the job is ideal.

Another step a small business can take is to place a blind-box advertisement. This is an advertisement in which there is no identification of the business. Applicants reply to a post office box, which can cost money to rent. Examining the job opportunities section of the classified ads demonstrates that it is used because of the benefits this type of ad provides. Many individuals are reluctant to apply to blind-box ads, reducing the number of applications a small business owner receives. Also, only those applicants the small business is interested in need to be responded to.

A small business can also target its recruiting efforts. If a job requires specific skills and abilities, a small business owner might approach local professional organizations or community colleges or universities to place an advertisement, in addition to placing advertisements in trade magazines (Alexander, Ray, & Naffziger, 1997). Requiring proof of those qualifications can further reduce the number of applicants who respond.

Small business owners can target their recruiting efforts in a variety of ways. Owners with good employees may want to consider asking their employees to refer their acquaintances to the business (Alexander et al., 1997). Some organizations view this as being their best way to effectively recruit top applicants (Love, 1998).

Another option is to identify specific sources of potential applicants. With the shrinking labor force many small business owners have begun hiring welfare recipients. Not all individuals on welfare desire to remain on welfare, and are willing to work their way off of welfare. The organizations that have pursued this option have discovered several benefits (Maynard, 1997). A variety of programs exist to assist organizations who hire welfare recipients, including tax credits, wage subsidies and enterprise zones which can assist small business owners in paying the employee's wages (Montague, 1997). A closely related option is to locate where the available labor is located (Buss, 1996).

Other employers have found that in their organizations, employees with certain types of backgrounds make the best employees. Some have found that immigrants have made the best employees, and focus on hiring immigrants as they stay with the small business longer than Americans in some instances (Ray, 1998).

Small business owners can also focus on the growing segments of the labor force, such as older workers (Smith & Hoy, 1992). Combine this with the shrinking number of younger workers, corporate downsizing and rightsizing, small business owners may want to consider pursuing older workers. Older workers are more experienced, and can bring those experiences into the small business. Also, small businesses have typically had good success with employing older workers, as they are typically more satisfied and less likely to leave the employer (Barth, Cordes, & Haber, 1984).

A fourth technique used to recruit applicants involves participation in job fairs. Hosting an open house or job fair can attract interested applicants for jobs that might not otherwise apply for a job with a small business (Maynard, 1997). Additionally, most colleges and universities allow employers to visit the school on a given day, and students can interact with the employers present. While this can create a problem concerning the conduct of the business, but getting the best applicant may be worth it in the long run.

In addition to job fairs are the placement offices of local colleges and vocational schools (Alexander et al., 1997). Many of these institutions allow employers to provide information about jobs, and then make this information available to students using the placement services of the university. This might be an option for the small business owner who is too busy running his or her business to attend a job fair. While the targeted population might be smaller than that reached through newspaper advertisements, the costs associated with college placement are usually lower than a classified advertisement.

Internships can also be used to recruit employees. Many students seek to gain experience in their chosen occupations, and many college programs offer internships for credit. This allows small business owners to obtain the help they seek. It also affords the small business owner the opportunity to get a good look at a student's work without a long-term commitment. If the intern works out well, then the owner can move on to further options and offers.

Finally, small business owners can use any combination of the recruitment techniques listed. The owner should examine closely such issues as the specific circumstances of the business, the specific labor market issues in the area of the operations, as well as the types of applicants they desire when formulating a recruitment technique or strategy, as each of these issues influences the success of the recruitment effort. Be innovative and creative, and once you find a system or source that works, stick with it.

Selection. After recruitment is completed, the small business owner needs to choose among the selection instruments available to select the best applicant for the job. Several selection

instruments will be discussed in the following paragraphs. This does not represent an order to be used when selecting employees. Rather, the order used should be influenced by the effectiveness of the instrument at providing job-related information as well as the efficient use of time.

The first step is to obtain background information through either an application form or a resume from prospective applicants (Alexander et al., 1997). This should provide background information about the applicant's qualifications. Resumes are less costly for the employer, but resumes from different individuals are not always formatted in the same manner. This can cost the employer in time to examine resumes that are set up differently, and are occasionally enhanced or even misleading in terms of the qualifications of the individual (Bachler, 1995).

Application blanks, on the other hand, do take time and money to develop correctly. Typical information requested on an application blank includes name, address, telephone number, social security number, education, work experience and references. While there is an implicit cost of generating application blanks, they can provide several advantages over resumes. First, the information collected from the applicants is standardized, as it is collected from all applicants. Second, an employer can require applicants to sign a statement verifying the truthfulness of the information provided (Sovereign, 1994). This is an area the resume cannot address. Once collected, applications and resumes can be screened.

Employment tests are used to evaluate if an applicant is qualified for the job. There exist a wide variety of employment tests. Work sampling is one type of test that can be used. In a work sampling situation, applicants perform the job, and are evaluated on their ability. Work sampling has been found to be used by a large number of small businesses (Deshpande & Golhar, 1994).

Small business owner can also use written tests to measure a wide variety of knowledge, skills and abilities of applicants. Written tests can evaluate a variety of abilities and traits, and are used by many small manufacturing firms (Deshpande & Golhar, 1994). These tests need to be related to success on the job. Tests can be purchased from vendors. Small business owners considering this option need to be aware that the small business owner is ultimately responsible for the selection decision, and that many vendors do not stand behind their tests, regardless of what they tell you.

Honesty tests are an option for small business owners. These tests typically look for consistent patterns in an applicant's responses to a variety of questions. Realize, however, that many applicants may simply provide socially acceptable responses to these questions. This may limit the usefulness of honesty tests. Nonetheless, it has been claimed that identifying honest employees is a business necessity in many situations (Hornsby, Kuratko, & Honey, 1992). Given the potential problems a small business owner may face, using an honesty test may be necessary.

The employment interview is the most commonly used selection device (Deshpande & Golhar, 1994). Even though employment interviews are less reliable and valid than job-related tests, most businesses do not want to give up the face-to-face contact associated with an employment interview. The key is to improve the employment interview.

Structured interviews can improve the reliability and validity of the interview (Dipboye, 1992). In this type of interview, the questions and their order are established prior to the interview. This allows for the effective comparison among the applicants, diminishing the effects of personal likes and dislikes while focusing on job-related information.

A second way to improve the interview is to take notes during the interview. This allows an interviewer to refer to the responses after the interview when he or she is actually making

employment decisions. The key is to document only job-related criteria. If this is done, the notes can then be "scored" following the interview. If an employer generates prior to the interview examples of a variety of good or bad responses, he or she can better identify how qualified an applicant is for the job.

Next, a small business owner should prepare for the interview. Examine the information gathered about the applicant prior to the interview. This allows the interviewer to have an understanding about the applicant's background, ensuring that job-related issues can be discussed or questioned in the interview.

Fourth, there are three primary qualities that questions should possess if they are to be asked of applicants. Questions should be work-related, focusing on job-related behaviors or qualifications. Next, questions should be asked which are of a situational nature, so that an applicant can describe how he or she behaved in a particular job-related situation (Lieber, 1996). Finally, questions should be open-ended. A question that contains all three of these qualities helps the small business owner in many ways. It provides work-related information, as well as the applicant to describe this situation beyond a yes or no response, requiring an applicant to demonstrate his or her communication skills, which may be important for many jobs. For example, if the job requires goal setting, a good question to ask might be as follows:

Tell me about a goal you once set and how you went about achieving this goal.

This question does two things very well. First, it gets at the job-related issue of goal setting. It also forces the applicant to describe the process involved in achieving the goal. Last, this is not a question that can effectively be answered with a yes or no response, as those types of questions should be avoided.

Interviews should be used for what they are really good at assessing: Communication skills and interpersonal skills (Buckley & Eder, 1996). The interview relies on each of these sets of skills, and the small business owner can use the interview to assess these skills as they apply to the job.

Sixth, the interview consists of communication between at least two parties. Given this, use the interview to elaborate on the realistic job preview. Attempt to provide accurate information about the job, even if it is negative, while mentioning the positive aspects of your company or business (McGarvey, 1996).

Finally, one should not forget that when conducting the interview, attempt to put the applicant at ease. Express interest in their ability, as interviews are stressful for most applicants. Let the applicant ask questions, as the questions may indicate the applicant's interest level or even reveal additional information about the applicant. Once the interview is completed, make an overall evaluation.

A reference or background check should be conducted at some point. It is important to remember to ask questions relating to the applicant's performance on past jobs. Many employers may only respond to yes or no questions. As a result, you need to be prepared to alter your questions to fit the situation. Even if you do not find any valid information, the small business owner will be on firmer legal ground if you identify poor work performance, or run into problems with an applicant who is hired.

If a small business owner needs to require medical examinations, make this a requirement only after a conditional job offer is made. By placing this device last, once the business grows to 15 employees, the small business owner will be in compliance with this law.

## **USING AN EXTERNAL AGENCY TO CONDUCT RECRUITMENT AND SELECTION**

Sometimes a small business owner does not have the time recruit and select among applicants for a position. Given changes in employment over the past several years, this is not much of a problem to an employer. One of the largest segments of the U.S. economy consists of employment agencies and staffing firms, providing alternatives for small business owners.

Staffing agencies. One of the largest employers in the United States is a staffing agency, Manpower, Inc. Staffing agencies can assist in filling the needs of small businesses in a variety of ways, ranging from handling all of the recruitment and selection functions to one where the staffing agency simply recruits applicants. This save the small business owner a considerable amount of time (Weaver, 1997).

Small business owners can also lease employees. In this situation, the staffing agency or the professional employer organization (PEO) is the employer, sending out qualified employees to work on tasks for your business (Laabs, 1996). Again, time is saved by not having to recruit and select among applicants. The small business owner typically pays the staffing agency a set fee, based on the contract that is established. This creates a situation where small business owners do not pay for benefits, or have to be concerned with government paperwork. Additionally, premiums associated with workers' compensation insurance and unemployment compensation insurance would also be lower, given that the small business is not considered the employer, representing considerable savings to the business (Begany, 1991).

Unfortunately, downfalls to leasing employees do exist. A small business owner who pays a staffing agency a fee of \$11.00 per hour for a leased employee may be getting less than the qualifications of an \$11.00 per hour employee. This is the result of the staffing agency may be paying that individual a rate considerably lower than \$11.00 per hour, given that they are picking up additional costs, and may be providing benefits beyond the legally mandated benefits. Other downfalls could include turnover beyond your control.

Small business owners can also pursue a temp-to-hire option with staffing agencies. Staffing agencies can supply a small business owner with qualified applicants, allowing the small business owner the opportunity of taking an extended look at the employee prior to committing to a full-time employment offer. If the employee does not work out, there is little lost on the part of the small business owner. Using staffing agencies to recruit employees is nothing new for small businesses (Alexander et al., 1997).

## CONDUCTING SOME TASKS; USING AN AGENCY FOR OTHER TASKS

Allowing an outside agency to handle all of the recruitment and selection is not something that all small business owners may want to do. What might be more appropriate is to have a third party conduct some of the tasks while the small business owner conducts other tasks.

Small business owners could advertise their positions through public employment agencies. These agencies can generate a reasonably sized applicant pool at a very low cost. The public employment agency would conduct the recruiting, saving time for the small business owner, who screens the applications and conducts the tasks associated with selection. The time associated with screening and selecting among qualified applicants is the same as when the small business owner conducts selection on his or her own. The downfall with public employment agencies is their image among applicants. Prospective applicants see these agencies as having access to only low-skilled jobs (Decenzo & Robbins, 1996).

The options available to small business owners considering private employment agencies are much wider. Private employment agencies can be contracted to conduct initial screening, saving the small business owner time. This may lead to a higher fee, but the benefits may outweigh the costs (Weaver, 1997). These agencies can perform a variety of functions from administering job-related employment tests to conducting initial interview. This option allows the small business owner some control over the final decision.

## CONCLUSION

Many options exist for small business owners when recruiting and selecting employees. Small business owners should carefully consider which tools are most appropriate for his or her situation. A third party may be able to conduct recruitment, but making a hiring decision may be a tougher issue. Given these issues, the small business owner should make the best use of his or her resources associated with recruitment and selection.

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# **RETAINING QUALITY EMPLOYEES: A GUIDE FOR SMALL BUSINESS AND ENTREPRENEURS**

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## **ABSTRACT**

*One of the most difficult challenges small business owners and entrepreneurs face is retaining their quality employees. The task of retaining these quality employees is multifaceted, with no single area guaranteeing the ability to retain employees. By understanding each of the factors presented in this paper, combined with understanding your employees' needs and concerns, small business owners and entrepreneurs can more effectively retain their quality workers.*

## **INTRODUCTION**

Once a small business owner successfully recruits and selects quality employees, the next job is to motivate and retain these individuals. Why is motivation part of retention? Simply put, if an employee loses motivation to perform the job, performance may drop, or he or she may leave the organization. As a result, motivation and retention go hand in hand.

What is the secret or formula to keeping good employees? No one really knows the answer to that question. Since every individual is different, no formula exists that would apply to everyone. However, there are some guidelines that small business owners may find helpful. The remainder of this paper will cover five major components of retaining employees, which are how to treat employees, performance evaluations, pay and rewards, employee benefits, and training.

## **HOW TO TREAT YOUR EMPLOYEES**

Treating employees with dignity and respect is especially important for the small business owner, as his or her employees can bring tremendous amounts of success or failure quickly to the organization. While the issue of treating employees with dignity and success appears to be a simple enough issue, there are some things small business owners can do to insure that this happens.

Talk with your employees. Small business owners should make a regular habit of talking with, rather than down to, their employees. This can be a difficult issue for many people, given the fact that the business owner is in charge. However, virtually any message can be effectively communicated in multiple ways. Try to establish an atmosphere that indicates that while you are in charge, you are working with the employees and will attempt to help them while they at the same time are helping you. Rather than tell someone what to do, ask a question, such as:

Have we processed all of the paperwork associated with the order from ABC Company?

By asking the question, you prompted your employee to do his or her job, as well as treated them with respect.

In addition to talking with your employees, get to know your employees. The most successful organizations at creating high morale must identify the needs and motivations of its employees. This includes listening to your workers. When problems arise, pay attention to the issues and concerns of your employees. If you are going to act on these concerns, be sure to follow through with any commitments you make. Also, do not be afraid to pay people on the back, as recognition can be accomplished through communication. Finally, communicate when communication is needed, whether it is in response to changes going on in the workplace or just to explain the progress of a particular project. This will let your employees know that you are still working on the issues or concerns. Additionally, open communication has been found to be the most important human resource practice for small businesses (Deshpande & Golhar, 1994).

As changes occur more and more in the workplace, paying attention to and focusing on the morale and motivation of employees is very important. Regardless of whether the change is initiated by the owner or in response to the external environment, it is important that changes and the process associated with the changes occur smoothly. Changes may invoke fear in employees, as they can no longer predict what is going on at work. Once you calm the fear associated with change, the focus can then move to making the changes take place.

Another way of handling the change associated with fluctuating demands for goods or services is to avoid layoffs if at all possible. If the business can afford it, avoiding layoffs can keep morale and motivation at a very high level. This can be viewed as a way of keeping the good employees your business has hired. Additional benefits of retaining these workers include less time and money spent on recruitment and selection. The ability to do this, however, may not be available for all businesses.

Second, you hired a quality employee who expects to be spoken to with respect and dignity. Very few, if any, people desire to be treated poorly ever, which includes time spent at work. Couple this with the fact that many individuals spend more of their waking hours at work than with their families, it is especially important that an atmosphere is created where employees do not want to remove themselves from or refrain from performing at their highest level. After all, you hired this individual because of ability. As changes occur, communicate the changes, as well as the changes in the policies and procedures to the employees (Harris & Arendt, 1998). This may reduce the stress associated with the changes, and help the employees to understand better what is taking place. Also, the changes implemented may not be as effective as anticipated. By communicating with their employees, the owners learned of the ineffectiveness, and were able to make additional changes to improve the overall process.

An often overlooked part of communication is that it involves not just sending a message, but it also involves listening. We must all remember that part of communication is listening, and when small business owners and entrepreneurs are better listeners, even the worst situations can be turned around and made positive.

A third issue to consider concerns those instances where something goes wrong and you are upset. How does one communicate the problem in a manner that is under control but at the same time points out the problem? The first step is no surprise, remain calm. This is certainly easier said than done in many instances. If necessary, take a few minutes to put the problem into proper

perspective. Once you have calmed down, focus on the problem, not the person. The important issue is to correct the problem, so identifying the cause of the problem and a solution is what is needed at this point. By taking these steps rather than losing one's temper or perspective, employees will develop a greater respect for you as a small business owner. Additionally, if problems do develop, the employees will not be hesitant to reveal the problems, rather than hide them to be discovered when it might be too late to correct them.

Be fair and consistent. One of the most important things anyone can do to increase the commitment of a group of employees is to be fair and consistent. When considering the legal issues surrounding the workplace, the courts often times consider consistent treatment of employees to represent fair. When small business owners have more than one employee, it is very important to handle problems of similar circumstances in the same manner for all employees. Workers are continually comparing themselves to their co-workers, and when inequities exist, the effects on motivation and morale can be very destructive (Waterman, 1993).

Closely related to the issue of fair treatment is the idea of leading by example. Not only do employees expect to be treated with dignity and respect, but they also typically expect employers and supervisors to live up to the same standards that they measure their employees against. Try to create an atmosphere where employees openly acknowledge and discuss their mistakes. Remember, the focus should be on finding a solution, not dwelling on a mistake or pointing fingers.

Remember, how you treat your employees is reflected not only in your words, but how you treat them based on your actions. By speaking with your employees, providing them with challenges and treating them consistently, the payoffs will be tremendous. The costs of not taking these actions could also be tremendous.

## **PERFORMANCE EVALUATIONS**

The basic premise of performance evaluations is to provide feedback to employees regarding their performance. This feedback can be purely evaluative, meaning that the past evaluation period's performance is given a value. If this is the case, then small business owner and entrepreneurs need to link specific levels of performance to specific rewards (Waterman, 1993). On the other hand, this feedback can be developmental, meaning that the feedback is used as a tool to identify areas of performance in which he or she can improve. Small business owners should want to use performance evaluations for both purposes. Most employers need to be aware of how their employees are performing and need to know in what areas their employees need to improve, if organizational performance is to improve. This can help small business owners improve their business (Harris & Arendt, 1998).

Performance evaluations can be formalized or informal in nature (Latham & Wexley, 1994). Regardless of which method is chosen by a small business owner, performance evaluation can provide benefits and should occur.

Informal performance evaluation. Many small business owners may not possess the time to develop a formalized performance evaluation system. In some cases where employees interact on a regular basis, there may not be a need for formal evaluations (Barrier, 1998). Even when evaluations are informal, it is important to remember that we are talking about their performance, not the individual. By focusing on the performance, an employee gains an understanding of what the

expectations are (Latham & Wexley, 1994). Next, these standards need to be communicated to the employee. This helps an employee to understand the expectations of their performance.

Next comes the part of allowing the employee to perform. Both positive and negative performance should be noted. Specifically, notes should be taken regarding performance, allowing for specific feedback. This helps the employee to remember the circumstances or situation. Additionally, provide feedback on a regular basis, as immediate feedback helps improve performance more than feedback provided at a later date.

Formalized performance evaluations. Formalized performance evaluations create an awareness of the fact that performance is evaluated. For the small business owner, formalizing the performance evaluation process is merely taking the informal process a couple of steps further. Also, formal evaluations may become necessary as the small business grows, creating a situation where the frequent interactions are diminished.

The first step is to identify performance standards (Harris & Arendt, 1998). These are indicators of whether or not performance was considered acceptable or not. This should communicate the performance expectations to employees. This should align the efforts of the employees with the small business goals.

Next, the small business owner needs to select an evaluation instrument. Evaluation instruments can be simple or complex, and can be borrowed from other organizations, purchased from consultants, or developed from off-the-shelf computer software. Regardless of how they are developed, the key is to develop an instrument that accurately and effectively evaluates the performance of your employees. You must determine what type of instrument is appropriate for your situation. One suggestion, however, is to avoid the use of terms or categories such as average, above average, meets expectations, exceeds expectations and the like, as this can mean many different things to many different people (Latham & Wexley, 1994).

Establishing performance evaluation intervals needs to occur after the instrument has been identified (Harris & Arendt, 1998). Many organizations evaluate performance once every year. However, more frequent evaluations may be better. This provides more frequent interactions and feedback, providing faster solutions associated with problems of poor performance. Many evaluators question the time spent on evaluating performance. The time spent is an investment in making sure that the business succeeds. The dividends paid back on this activity are tremendous.

Small business owners conducting formalized performance evaluations should attempt to document performance. Providing detailed, specific information is more useful to both the employee and the evaluator, providing clear evidence regarding performance. Another purpose of documenting performance is to reduce the weight that is given to negative information, as it is often weighted more heavily than positive information. Documentation helps prevent this mistake.

Finally, the evaluation needs to be communicated to the employee (Harris & Arendt, 1998). The individual providing the information should prepare for the meeting by gathering information regarding the performance of the employee. When meeting with the employee, provide clear and detailed information. Focus on the performance, attempting to identify ways to improve. This will improve the employee's performance as well as the business.

## **PAY AND REWARDS**

Pay and rewards are important to employees. They can attract, motivate and retain high quality employees, and not all rewards need to be monetary in nature. In the next several paragraphs, the effects of pay and rewards on a small business owner's ability to retain quality employees will be discussed.

Pay. Pay is an important issue in our society. In order to for a small business owner to survive, he or she must employ individuals who will add value to the organization. For a small business that is just beginning or struggling to survive, finding such a resource can be difficult. The budget may only allow wages to a certain level, which may limit the number of applicants who apply for the position available. Given this, a small business owner needs to be aware of the labor market, identifying what other organizations are paying for similar positions. If an individual has two choices that are virtually identical, but the pay is higher for one, virtually all of the time the employee will go for the higher pay. This will also influence your ability to retain quality employees, as competitive wages are almost as important for small businesses as well as big business (Deshpande & Golhar, 1994).

Pay interrelates with the types of assignments you require of your employees. While providing challenging assignments develops employees, it also creates more opportunities for employees, increasing their marketability. This leads to a situation where employees may be able to demand higher salaries from small business owners. One point to remember is that if the employees are producing, their contributions should be recognized. This allows employees to earn what they deserve, while improving the business at the same time.

When pay is tied to performance, it can be motivating. Pay can be tied to the quantity or quality of the product. If pay is tied to performance, it should be tied to realistic levels of performance, not merely goals which are unattainable. This may be an appropriate system for the small business struggling to make ends meet. In this situation, business necessity could cause these organizations to adopt pay-for-performance systems (Cantoni, 1997). This can help the firm remove weak links and reward those employees who perform at high levels.

Finally, another option is to provide ownership to the employees through stock options. Because of changes in tax laws in the 1980s, small businesses have begun implementing ESOPs more than ever, and have helped small business survive, grow, and even prosper. It creates an atmosphere where everybody wants to company to perform at its best.

When it comes to tying pay to performance, many options exist for small business owners and entrepreneurs. One must remember, however, that when the organization is making or going through changes, the small business owner and entrepreneur might need to consider changing his or her business's pay system (Lynch & Werner, 1994).

Rewards. Many rewards other than pay exist in any organization. One of the most cherished rewards is recognition of a job well done. Most any organization can implement a program to recognize outstanding performance. If handled appropriately, recognition programs can do a lot to motivate employees. These programs can be formalized or informal, as long as the employee heard you state that they did a good job in relation to specific circumstances. This type of reward costs nothing but provides benefits.

Many other types of rewards can also be provided to employees at relatively low cost. If there is no formalized benefits program, or the reward is not classified as a benefit, then it could be used as a reward. Employees sometimes are called upon to put in many hours. Allowing employees flexibility can be a very valuable reward, a reward that can allow the employee to take care of other areas of their life.

Additional rewards include giving the worker a night out on the town, or spot bonuses, where the employee is given something that they personally value. The keys to pursuing any of these options are to identify what the employee would appreciate, tailoring the reward to the individual (Waterman, 1993). Another key is to indicate that it is being given as a reward for doing a job well done.

## **BENEFITS**

In some instances, benefits can attract a large segment of the diverse labor force. Benefits can be costly, but they can keep good employees from seeking employment elsewhere. A small business may only need to cover the basics to keep quality workers (McGarvey, 1996). A variety of benefits will be presented and discussed in the following paragraphs of this report.

**Pension.** Many employees are concerned about preparing for retirement. Pensions may be difficult for a small business to provide; however, the availability of pensions may compensate for lower pay. While small businesses use retirement plans less frequently than larger companies, their use has grown substantially over the past several years (Blakely, 1997). By providing these plans, small business has been able to retain quality workers. Some recent changes in retirement plan legislation may help small business owners and entrepreneurs. Those small businesses that can afford to contribute to their employees' pensions, the SIMPLE 401(k) and SIMPLE IRA may be very attractive. This SIMPLE 401(k) was simpler and easier to implement than previous options, and can allow a company to tailor the plan to best fit its needs. The SIMPLE IRA has also become popular, given its ease of understanding.

What many small business owners forget is that businesses can set up pension plans where the employer does not contribute to the pension, providing assistance to those small business owners and entrepreneurs who cannot afford to provide contributions to retirement plans. If established effectively, for little no cost to the employer, a third party can be brought in to establish a retirement plan, such as a 401K plan, for his or her employees (Myers, 1998). This provides two major benefits for the employees. First, this allows employees to begin putting away for retirement. Second, it allows employees to tax shelter their earnings, resulting in a lower taxable income. For the employer, this may just retain some of the quality employees that make the business successful.

**Insurance.** Insurance is an issue that employees are concerned with and desire. A small business owner who can provide health insurance to his or her employees has the ability to attract and retain a large number of good employees. If an employer cannot provide this type of benefit due to financial constraints, other options exist. Changes in legislation, as well as the types of coverage now offered, are providing new opportunities for small business. High-deductible health plans now exist, lowering premiums up to 60 percent (Gemignani, 1997). This can be made even more attractive when coupled with a Medical Savings Account, which help cover out-of-pocket health care expenses (Stevens, 1997).

Additionally, it is common for employees to contribute to the cost of the insurance premiums (Woodmansee, 1997). Given this, an employer could obtain the insurance at a group rate, allowing employees to purchase the insurance at a rate lower than what they could otherwise obtain. This is a benefit that some employees would appreciate, since not all employers provide even this insurance option. Again, this helps retain quality employees while exacting little cost on the small business owner.

For the business owner or entrepreneur who has surpassed the 50 employee mark, while MSAs are not feasible, other flexible spending account options do exist (Woodmansee, 1997). For these small business owners and entrepreneurs, Medical Care Account Plans (MCAP) and Dependent Care Account Plans (DCAP) can be established. These plans allow employees to set aside pre-tax dollars for reimbursement for a variety of healthcare and dependent care expenses. These options further supplement what the small business is able to provide for its employees.

**Time off.** Another potentially low cost benefit to employers is that of time off work. Employees in today's diverse work force have a wide variety of needs, putting a lot of pressure on today's workers. Having time off allows employees to recuperate from the stresses of life, as well as attend to the problems that life throws their way. Providing time off for holidays, sick leave and vacation time can be a tremendous benefit for both the employee and the employer, as both parties receive benefits.

For the small business owner who can afford to provide paid time off, it is recommended that the first place to begin would be with sick leave. By providing sick leave, employees who are sick are provided the opportunity to recover without a loss of wages. This allows the individual to recover and to be at work when they can perform at 100 percent capacity. Not providing paid sick leave can create several problems. Some individuals may need the money so badly that they will work if sick leave is not paid. They may make the other employees ill, reducing the capacity of the overall organization, multiplying the effects of their illness.

The other major forms of paid time off include holidays, vacation, personal leave, funeral leave and jury duty. The small business owner should pay attention to the needs and desires of his or her employees.

**Flexible work schedules.** Given the hours that most businesses operate, this limits the ability of the employees to take care of their needs that might only be met during these same hours. By allowing flexible work schedules, workers can take care of their problems and still perform at a high level. This benefit can be flexible and simple. Workers who need to take time off could be allowed to make the time up. This costs the employer nothing in wages, and little to nothing in running the business.

A variety of variations on this benefit can also be provided. A compressed work week can be established, giving employees a three-day weekend. Another variation is to establish a formal flexible work schedule, allowing employees to come to work later than the usual starting time or to go home earlier than the normal ending time. Finally, giving employees latitude in setting their schedules is a way to boost productivity as well as retain quality employees.

Closely related to flexible schedules is the use of permanent part-time employees. The tremendous growth of the aging population is one case in point. Not all workers are in a position to afford to be retired full-time. There exists a considerable amount of skill, ability, knowledge and

wisdom among this particular segment of the population which can be beneficial to small business owners.

## **TRAINING EMPLOYEES**

There are a wide variety of reasons an employer might decide to train his or her employees. The need could arise out of a change in technology, or out of a need to improve the performance of the employees. Regardless of the reasons, some view the success of small businesses as directly linked to the level of training of the business's workforce, especially in times of rapid change (Marshall, Alderman, Wong, & Thwaites, 1993).

Training programs should consist of five major steps (Harris & Arendt, 1998). First, the small business owner should determine the training needs and objectives. Second, training criteria need to be identified. Third, a trainer should be selected. Fourth, develop training materials that will help you achieve your objectives. Finally, once training has been conducted, evaluate the effectiveness of the training.

There exist a wide variety of reasons why a small business would want to pursue the five steps associated with training, as well as a number of ways to pursue these steps. While there is an exception to every rule, most employees desire work that is more than mundane and monotonous. These are employees who desire a challenging work assignment. To be able to provide these types of assignments, it is important for small business owners and entrepreneurs to provide training for new employees.

A small business owner can provide challenging assignments to both new and continuing employees without risking losing his or her business. The key to doing this is to provide smaller or less risky challenges to employees so that they feel challenged and the owner can at the same time accurately evaluate the capability of his or her employees. This can be achieved in a number of ways. One way is to provide challenges that have lesser amounts of negative consequences or risks associated with them. Another way is to ensure that clear guidance is given to employees.

Training of employees begins the day they begin work. After an employee is hired, small business owners should sit down with these new employees and discuss the details of the job, including the specific tasks to be performed, and determine if any training needs exist. This should focus not only on initial training needs, but should identify the future needs and desires of the employee. By identifying these needs, the small business owner can more proactively manage his or her employees, rather than reacting to circumstances as they develop. This benefits both the employee and the small business owner.

One of the problems facing small businesses and the conduct of training is the fact that the business needs to be run. However, to ignore training can also cost the business. One way to balance the need to run the business with the conduct of employee training is to build partnerships with local colleges and universities. By building a partnership, both the business and the educational institution can benefit (Bensimon, 1992; Crist, Presley, & Zenger, 1992). The business receives high-quality training its employees need, while at the same time identifying sources of potential employees.

Training is a very important aspect of having a strong and effective business. The minimal investment of training employees will pay off handsomely in the future. Rather than focus on training as a cost, consider it as an investment in your business.

## CONCLUSION

Once quality employees have been recruited and selected into the small business, the job of the small business owner is just beginning. The amount of effort that the small business owner exerts into retaining quality employees can save a considerable amount of time in the long run. A small business owner who effectively retains quality employees reduces the need to recruit and select quality employees, as turnover is decreased. Every small business owner must evaluate his or her situation, and how best to approach the unique challenges which face his or her business. This should lead to a situation where informed decisions are made in the best interest of the business.

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### **AUTHOR NOTES**

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# WORK SATISFACTION AND ENTREPRENEURIAL DREAMS

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## ABSTRACT

*This paper reports results from a life satisfaction survey (LSS) conducted with a college-educated sample of 345 respondents. The overall objective of this paper is to compare selected results from this life satisfaction survey with corresponding findings of a recent Inc./Gallup poll on Americans at work. The survey instruments are not identical, but certain areas cover similar variables. The Inc./Gallup poll surveyed 800 people, and is a general sample of Americans, who are 18 years or older, and work at least 30 hours a week. The LSS study is directed at a more specific sample of educated respondents. Interestingly, both surveys revealed high work or job satisfaction results. However, LSS has more variable components (24) of life satisfaction. A ranking of the components reveal that a college-educated sample is more satisfied with personal components versus professional components of their lives. The Inc./Gallup poll reported that a significant percent of workers who didn't currently own a business said they dreamed of starting one. More men reported the dream of business ownership compared to women. LSS reported a similar trend. However, the LSS instrument provided a timeline for entrepreneurial dreams, and therefore provides more insight into when people wanted to start their own business.*

## INTRODUCTION

According to Seglin (1998), "employee satisfaction reigns". Based on the annual Inc./Gallup survey of Americans at work, Seglin (1998) reported that 71% of Americans claim a job satisfaction of 4 or 5 on a five-point scale (where 5 meant "extremely satisfied"). The survey results also showed that 74% of workers think they are fairly paid (76% men and 71% women). Forty-three percent of workers who didn't currently own a business said they dreamed of starting one. More men (49%) reported the dream of business ownership compared to women (36%). The Inc./Gallup survey was conducted in February 1998. It was a nationwide survey of 800 people over 18 years and employed at least 30 hours a week. Results are reported at the 95% confidence level, with a plus or minus 3% error range.

The current study focuses on gender as an important classification variable because the story of women business owners is a compelling one. Women-owned businesses have had stunning growth relative to the overall U.S. economy. In 1994, women-owned businesses hired 15.5 million people and generated 1.4 trillion in sales (Mallory, 1996). According to Mallory (1996) the U.S. Census Bureau reports that women's total share of nonfarm businesses (excluding large female-owned corporations), had reached 34.1%. According to a more recent report by the National Foundation of Women Business Owners, women now own 36 percent of all U.S. businesses. These businesses have annual revenues of \$2.28 trillion. Only 25 years ago, women owned less than 5 percent of all U.S. businesses (Nelton, 1996).

Previous studies have explored the influence of gender on job satisfaction and overall quality of life (Mohan-Neill, 1995; Mohan-Neill and Matusiak, 1995), the influence of gender and opportunity structure on job satisfaction (Mason 1995; Mohan-Neill, 1996a), and the interactions between gender, opportunity structure and entrepreneurial aspirations (Mohan-Neill, 1996b). Published statistics indicate that women are forming and succeeding as entrepreneurs at a much higher rate than men (Mallory, 1996; Nelton, 1996). Mohan-Neill (1996b) reported that while gender appears to have some influence on professional and entrepreneurial goals, an individual's opportunity structure is also a very important interactive variable. For example, *enriched women* may be less likely to have entrepreneurial goals early in their corporate careers because they have expectations of corporate advancement. On the other hand, *impoverished women* may have already been disillusioned concerning the probability of enrichment within a corporate environment, so they are more likely to look to the future and envision their professional fulfillment within an entrepreneurial setting.

The findings of the Inc./Gallup poll motivated this study to take a closer look at what may be occurring behind the summary statistics. Are educated women equally satisfied with their jobs and compensation compared to men? Are men more likely to desire their own business compared to women? The objective of the current paper is to continue to examine the aspirations of subjects before they venture out and start businesses or become self-employed.

### Research Objectives

Does a college-educated sample report high job satisfaction similar to the Inc./Gallup survey?  
Do men and women report similar levels of satisfaction?  
How does work and job satisfaction rank in relation to other components of life satisfaction?  
What is the influence of gender on the goal to be "self-employed or to start a business"? How are the results similar or dissimilar to the Inc./Gallup results?  
Are more men dreaming about owning a business compared to women?

### RESEARCH METHODOLOGY

As part of the more long-range *LIFE SATISFACTION STUDY (LSS)*, a 4-page questionnaire was developed. The questionnaire underwent several iterations and revisions. Focus group settings and in-depth personal interviews were utilized in the development of the questionnaire. After feedback and comments from a variety of sources, the final data collection instrument was completed. There are six major areas covered in the questionnaire: 1) *LIFE SATISFACTION MEASURES*: there were 24 variable measures of various dimensions of LIFE SATISFACTION; 2) *DESIRE FOR CHANGE MEASURES*: there were 20 variable measures concerning the desire for change in various areas; 3) *FUTURE GOALS*: there were two categories of goals (personal and professional); respondents were asked to indicate whether the stated measures were goals, and if they were, the time frame they had for achieving those goals; 4) *CURRENT JOB SATISFACTION*: respondents were asked to give their current or most recent position and responsibilities; they were then asked to indicate the extent to which they agreed or disagreed with a statements concerning their current/most recent position.; 5) *DEMOGRAPHICS*: age, gender, marital status, education level,

educational goals were some of the primary variables in the demographic section; 6) FREE TO DREAM: respondents were given two opened sentences to complete; the first was an attempt to get the respondent to describe their perception of the perfect job or position; the second was an attempt to have the respondent describe what it would take to be personally fulfilled.

**VARIABLES OF INTEREST IN THIS STUDY**

***Life satisfaction measures***

Twenty-four measures of life satisfaction (Table 1) were examined in this study. A ten-point scale was used (1=very dissatisfied; 10=very satisfied).

***Career and entrepreneurial goals***

Respondents were asked to indicate whether the following measures were goals, and if they were, what time frame did they have for achieving those goals. A 5-point scale was employed; (1 indicated that it was not a major goal; 2 indicated it was a goal in 1 to 3 years; 3 indicated it was a goal in 4 to 6 years; 4 indicated it was a goal in 7 to 10 years; 5 indicated it was a goal in more than 10 years). The following goal was examined in this study: "start my own business or self-employment".

**SAMPLE**

A non-probability sample was utilized. However, some stratification and randomness was built into the sampling design as it snowballed. The following sources were utilized for developing the preliminary sample utilized in this study: full and part-time students from several universities, people from a variety of professional backgrounds, e.g., hospitals, consumer products company, consulting firms, non-profit associations. Unlike the Inc./Gallup sample, the LSS sample is more educated and younger. The sample utilized in this study consists of 345 respondents; the majority had at least some college education. There were 57.5% females and 42.5% males. In this sample, 35.8 % or participants were 25 years or younger, 50.1 % of the sample was 30 years old or younger, and 12.3% were older than 45 years.

**RESULTS AND DISCUSSION  
JOB & WORK SATISFACTION**

Does a college-educated sample report high job satisfaction similar to the Inc./Gallup survey?  
Do men and women report similar levels of satisfaction?

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The Inc./Gallup poll (Seglin 1998) used a five-point scale to measure job satisfaction (where 5 represented "extremely satisfied"). Seventy-one percent of the Inc./Gallup respondents reported a job satisfaction of 4 or 5 on a five-point scale. The survey results also showed that 74% of workers think they are fairly paid (76% men and 71% women).

The LSS used a ten-point scale (10 was "very satisfied") to measure life satisfaction variables. There were a total of 24 variables (Table 1). About 33 % of sample reported 8 to 10 for work satisfaction; 33.1 % men and 33.8 % women reported 8 to 10 for work satisfaction (Table 2).

Table 1 reveals the relative ranking of the means for all 24-life satisfaction variables. Overall, personal components rank higher relative to professional components for an educated sample. Work satisfaction is ranked 20<sup>th</sup> out of 24 variables. Satisfaction with salary and compensation is ranked 24<sup>th</sup>, and satisfaction with opportunity for advancement is ranked 23<sup>rd</sup> out of 24 variables.

**ENTREPRENEURIAL DREAMING & GOALS**

What is the influence of gender on the goal to be "self-employed or to start a business"? How are the results similar or dissimilar to the Inc./Gallup results?

Are more men dreaming about owning a business compared to women?

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According to the Inc./Gallup poll, 43 % of workers who didn't currently own a business said they dreamed of starting one (Seglin 1998). More men (49%) reported the dream of business ownership compared to women (36%). The results of the LSS study are presented in Table 3. They indicate that a greater percentage of women say that self-employment or business ownership is not a major goal (53.2%) compared to men (45.3%). Therefore more men are dreaming of owning a business compared to women. The LSS data gives a more detailed timetable for when people want to achieve their entrepreneurial dream. A greater percentage of men (13.7%) expressed a desire to be self-employed or start their own business within 1 to 3 years compared to women (7.5%). Eighteen percent of men in the sample expressed a desire to be self-employed or start their own business within 4 to 6 years compared to 17.2% women. The data indicates that a greater percentage of men express the desire to be self-employed or start their own business compared to college educated women.

**What is the influence of Gender and Children on Goal to be "self-employed or have own business"?**

The LSS study also has data on children, which can be used to expand the analysis beyond gender. Table 4 and Figure 1 summarize the findings concerning the influence of gender and children on the goal to be "self-employed or start your own business". The sample was divided into four sub-groups: 1) Women, with no children, 2) Men, with no children, 3) Women, with children, and 4) Men, with children. Both groups of women indicated less desire for self-employment and business ownership compared to the groups of men. However, a greater percentage of women with children (14.3%) expressed the goal self-employment and business ownership compared to women without children (3.4%) during the 1-3 year time frame. A greater percentage of men with children (16.7%) also expressed the goal self-employment and business ownership compared to men without children (12.1%) during the 1-3 year time frame. So, when gender is held constant, it appears that the presence of children does increase the likelihood of someone desiring to start a business or to become self-employed. Often people perceive that this career option as giving them the flexibility they need

to raise children. Unfortunately, some people do not realize that time pressures and responsibilities often increase when one pursues entrepreneurial ventures.

## CONCLUSIONS

This LSS study does show that college-educated respondents are more satisfied than dissatisfied with their jobs (similar to Inc./Gallup poll). However, the job satisfaction level is not as high (LSS survey) as the general population (Inc./Gallup survey). Expectations may be higher in a college-educated sample (LSS), which may explain the lower satisfaction level. When one views the “big picture”, job satisfaction and satisfaction with salary and compensation rank much lower than personal variables in the LSS data. Interest in Entrepreneurship is also strong as evidenced by both Inc./Gallup and LSS surveys. Men do express a greater desire to own their business in both the Inc./Gallup and LSS surveys. However, the empirical evidence shows that women start and succeed as entrepreneurs at a much greater rate compared to men. Women are often more deliberate and slow in starting businesses, and often their “lifestyle and slower paced ventures” have greater likelihood of survival and success. Their dreams are often tempered by reality.

The primary limitations of this study are that the sample does not represent the general population. The LSS sample is more educated and younger than the overall U.S. population. Although, the findings are not generalizable to the overall U.S. population as a whole, it does have implications for a college-educated, younger population of college students and professionals. It appears that college-educated women are more optimistic about corporate employment and are less likely to desire self-employment and business ownership compared to men. Independent of gender, the presence of children also increases the likelihood that people will desire self-employment and the dream of starting their own business.

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**TABLE 1. RELATIVE RANKING OF LIFE SATISFACTION VARIABLES**

<b>LIFE SATISFACTION VARIABLE</b>	<b>MEAN VALUE</b>	<b>RANK</b>
Personal freedom	7.5263	1
Family relationships	7.5000	2
Family responsibilities	7.3275	3
Quality of life	7.3112	4
Educational achievements	7.3093	5
Independence	7.1254	6
Personal relationships (overall)	7.0673	7
Personal relationships (non-family)	6.9912	8
Professional freedom	6.9635	9
Personal image	6.9250	10
Co-workers	6.8476	11
Marital status	6.8199	12
Professional image	6.6152	13
Social involvement	6.6093	14
Physical involvement	6.5948	15
Q20+q21	6.5505	16
Spiritual involvement	6.4822	17
Subordinates	6.3912	18
Professional achievements	6.3565	19
Work satisfaction	6.2404	20
Career/job responsibilities	6.2328	21
Company policies & culture	6.1128	22
Opportunity for advancement	5.6727	23
Compensation & salary	5.5151	24

**TABLE 2. WORK SATISFACTION \* GENDER Cross-tabulation**

WORK SATISFACTION		GENDER		Total
		FEMALE	MALE	
10.00	Count	2	3	5
	% within GENDER	1.0%	2.2%	1.5%
	% of Total	.6%	.9%	1.5%
9.00	Count	14	15	29
	% within GENDER	7.3%	10.8%	8.8%
	% of Total	4.2%	4.5%	8.8%
8.00	Count	49	28	77
	% within GENDER	25.5%	20.1%	23.3%
	% of Total	14.8%	8.5%	23.3%
7.00	Count	42	30	72
	% within GENDER	21.9%	21.6%	21.8%
	% of Total	12.7%	9.1%	21.8%
6.00	Count	22	26	48
	% within GENDER	11.5%	18.7%	14.5%
	% of Total	6.6%	7.9%	14.5%
5.00	Count	21	15	36
	% within GENDER	10.9%	10.8%	10.9%
	% of Total	6.3%	4.5%	10.9%
4.00	Count	11	8	19
	% within GENDER	5.7%	5.8%	5.7%
	% of Total	3.3%	2.4%	5.7%
3.00	Count	12	6	18
	% within GENDER	6.3%	4.3%	5.4%
	% of Total	3.6%	1.8%	5.4%
2.00	Count	9	4	13
	% within GENDER	4.7%	2.9%	3.9%
	% of Total	2.7%	1.2%	3.9%
1.00	Count	10	4	14
	% within GENDER	5.2%	2.9%	4.2%
	% of Total	3.0%	1.2%	4.2%
<b>TOTALS</b>	<b>Count</b>	<b>192</b>	<b>139</b>	<b>331</b>
	<b>% within GENDER</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
	<b>% of Total</b>	<b>58.0%</b>	<b>42.0%</b>	<b>100.0%</b>

**TABLE 3. THE INFLUENCE OF GENDER ON SELF-EMPLOYMENT OR BUSINESS OWNERSHIP GOAL**

<b>TIME FRAME FOR GOAL</b>	<b>WOMEN %</b>	<b>MEN %</b>
<b>1=not a goal</b>	<b>53.2</b>	<b>45.3</b>
<b>2=in 1-3 yr.</b>	<b>7.5</b>	<b>13.7</b>
<b>3=in 4-6 years</b>	<b>17.2</b>	<b>18.0</b>
<b>4=in 7-10</b>	<b>11.3</b>	<b>10.8</b>
<b>5=in &gt;10yrs</b>	<b>10.8</b>	<b>12.2</b>
<b>% of Sample</b>	<b>57.2</b>	<b>42.8</b>

**TABLE 4. THE INFLUENCE OF GENDER AND CHILDREN ON SELF-EMPLOYMENT OR BUSINESS OWNERSHIP GOAL**

<b>GOAL</b>	<b>NO CHILDREN</b>		<b>CHILDREN</b>	
	<b>WOMEN %</b>	<b>MEN %</b>	<b>WOMEN %</b>	<b>MEN %</b>
<b>1=not a goal</b>	<b>53.4</b>	<b>42.9</b>	<b>52.9</b>	<b>50.0</b>
<b>2=in 1-3 yr.</b>	<b>3.4</b>	<b>12.1</b>	<b>14.3</b>	<b>16.7</b>
<b>3=in 4-6 yr.</b>	<b>18.1</b>	<b>16.5</b>	<b>15.7</b>	<b>20.8</b>
<b>4=in 7-10 yr.</b>	<b>12.1</b>	<b>12.1</b>	<b>10.0</b>	<b>8.3</b>
<b>5=in &gt;10 yr.</b>	<b>12.9</b>	<b>16.5</b>	<b>7.1</b>	<b>4.2</b>
<b>% of Sample</b>	<b>35.7</b>	<b>28.0</b>	<b>21.5</b>	<b>14.8</b>

# **INSTILLING ENTREPRENEURIAL VALUES IN MBA STUDENTS: SURVIVAL SKILLS FOR THE NEW MILLENNIUM**

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## **ABSTRACT**

*Are entrepreneurs born or made? Can entrepreneurial attitudes be developed or enhanced? This paper examines a graduate MIS course within the MBA program at a major university. This course encourages students to explore the pitfalls and rewards of starting and maintaining a business. Students use the World Wide Web and Internet to develop a business plan and a simulated Small Business Association loan proposal. Using a pre- and post-test design, students are surveyed to determine if there were any significant changes in their entrepreneurial attitude. The paper describes the project in detail (including establishing teams and grading), the survey methodology, and the instrument used to examine entrepreneurial attitudes. The paper concludes with a discussion of the results, the limitations of the current study, and some directions for future research.*

## **INTRODUCTION**

Over the past several years, a few students who completed a graduate MIS course reported that they had used an assignment completed in the class to jumpstart a small business. Other students used the same assignment to develop presentations to obtain loans or attract clients for existing businesses. Thus, there was some anecdotal evidence that either the course or the assignment might have sparked some entrepreneurial spirit in some students. This situation was reported in a paper presented at Allied Academies in April 1998. Feedback from colleagues attending the presentation suggested that it would be interesting to formally test a research question concerning the stimulation of entrepreneurship resulting from the class and the assignment. To test this research question, both a pre and post measures of entrepreneurial attitudes was suggested. This paper reports the details of such a study.

Three methods exist to research the characteristics of entrepreneurs -- personality-based measures, demographic-based measures, and attitude-based measures. There are benefits and limitations for each measure. While both personality and demographic research have enjoyed widespread use, they have also come under attack (See e.g., Swayne and Tucker, 1973 for previous research using these measures and Robinson et al, 1991 for a discussion of the problems).

For this experiment, an existing and particularly well documented (relative to reliability and validity) survey instrument was selected for testing purposes. This instrument was the Entrepreneurial Attitude Orientation (EAO) survey developed by Robinson, Stimpson, Huefner and Hunt to measure the prediction of entrepreneurship. This instrument was administered both at the beginning and end of the semester in the graduate MIS course to examine the possible stimulation of attitudes as a result of taking the course and completing the entrepreneurial assignment.

The paper proceeds as follows. First, some course dynamics are discussed. Next, the survey methodology and the EAO instrument are described. The data collection technique and the method of analysis follow, with the results to be described more fully at the conference. Finally, some suggestions for future research are provided.

### **THE GRADUATE MIS COURSE**

Students taking this course typically have an undergraduate degree in business or have completed a core course in each discipline area in preparation for the MBA program. Most of the students are currently employed, and the program is delivered in an evening and weekend format. Thus, the course is designed to build upon the students' real-world experience by preparing future managers in fields other than information systems to exploit technology effectively. The course provides a broad view of information technology and includes electronic commerce, office automations systems, decision and executive support systems and telecommunications.

#### **The Course Syllabus**

The course curriculum includes both group and individual assignments. There are two examinations and an individual term paper. Students are also expected to participate in class discussions and complete various ad hoc assignments. The major group activity is an Internet-based project. Students must use resources found exclusively on the web to create a business development plan for a small business. These plans utilize the format of a Small Business Association's (SBA) loan application package. In the sections that follow, more details about the teams, the project and the project deliverables are presented.

#### **Group Assignments**

Team size varies depending upon class size, but the typical team will have four or five student participants. Classes have had an average of nine teams. Although student participants may select their own team partners, they must do so within strict diversity guidelines. For the five-person team, there can be no more than 60% of one gender. Distribution of minority members must reflect that of the class population, and no more than one non-native English speaking student may be on a team. Students are encouraged to use Email to communicate, and email capabilities are assigned during the first class session. The Internet project is discussed in the second class session with the final deliverable due about six weeks into the semester.

The first project step is to decide upon the businesses to be developed. The teams select a topic that they then present to the class and instructor for feedback (i.e., feasibility, considerations, etc.). The instructor either approves the business, requests the group to narrow the scope or suggests that another business might be more appropriate (i.e., the capital requirements might make successful

outcomes more realistic within the limited time frame). The teams compete for the simulated funding available. This competition is fostered through the understanding that the teams will be ranked and the team ranking influences final grade outcome. Past classes have selected such businesses as a carpet cleaning service, a cybercafe, a home computer installation/repair service, a mobile bone scanning business, home health care and web page creation services. Teams work independently of each other to develop their business plans. Since submitted plans are ranked, every team knows that it must out-perform the other teams, most teams become highly competitive.

### **Project Deliverables**

Each team must present its business plan and submit a notebook with supporting documentation. The first item in the notebook is a letter of transmittal (signed by all team members) to a simulated lending officer (the instructor) to accompany a loan application for the business. The notebook also contains an executive summary of the business plan. This summary is constructed based on guidelines published by The Small Business Association (SBA). These guidelines are available on the web. The full business plan is the third section in the notebook. A hardcopy of the class follows the plan. Since students are restricted to web-based resources, and references are cited using the URL, the final section of the notebook consists of a hardcopy (screen print) of each cited URL.

Students must present their business plans to the class on the scheduled class day. This strictly timed (ten minute) formal presentation is followed by a question and answer period conducted by the simulated loan committee (the class and the instructor). All classrooms are fully equipped with appropriate computer and projection technology and PowerPoint presentations are the norm. Presentations are enthusiastically paced with an emphasis on effective persuasion. The team must (1) convince their audience that they understand the business including critical issues and the financial case, (2) demonstrate their credibility by the thoroughness of their fact gathering, (3) show that they can logically derive a business plan based upon the evidence generated, and (4) help the audience understand the implications and/or recommendations concerning the business.

Since the competition is often keen and a team's grade depends in part upon their overall ranking, the instructor is careful not to provide any team an edge. The instructor will only answer questions about the team project at the beginning of each class. Thus, every team hears every other team's questions and the answers to those questions. Teams learn rather quickly, therefore, that they must take care in asking questions so as not to give too much of their plan away, and most teams hold their business plans in "secrecy" until the night of their presentation.

Teams also learn to apply planning and team-building techniques to accomplish the end goal. They are encouraged to define roles early in the project. Teams members perform roles as needed, and not every person on the team is required to perform every role. For example, the formal presentations need not include every team member. The team building dynamics and project planning experiences are looped into the course to foster an experiential learning environment.

### **Project Grading**

After the presentation, the class ranks each project. This provides a degree of "peer feedback" and often provokes some discussion. This ranking is a component of the overall grade. The other two components are the instructor's evaluation of the presentation itself and the instructor's evaluation

of the formal project business plan presented in the form of the notebook previously discussed. The weights of the components are contained in Appendix A (Sample Grading Sheet).

This process results in a team project grade -- not individual grades. Since the instructor can only evaluate outcomes, each team is required to give individual feedback and ranking with respect to the process. Each team member is given one hundred points for each team member other than themselves and asked to allocate these points based upon overall contribution to the end product. If the team member believes that everyone contributed equally, 100 points would be assigned to each team member. If one member contributed less than 100%, then another team member must have compensated with an effort greater than 100% to offset the deficiency. Thus, if a team member allocates fewer than one hundred points to some team member, these points must be allocated to the person who "took up the slack." The points are then averaged for each team member. If the average of one team member was only 90%, that team member receives 90% of the final project grade as the individual grade. Besides their confidential peer rankings, student participants are asked to make any comments they feel appropriate to the instructor along with the ranking.

### **Project Outcomes**

By exposing student participants to multiple aspects of a business in a competitive environment, entrepreneurship is stimulated. After nine terms using this approach, the antidotal and now statistical evidence indicates that a most students are entrepreneurially stimulated. In the next section, the evidence is presented.

## **THE SURVEY**

The EAO survey instrument (Robinson et al, 1991) was selected because it was theoretically well grounded and provided a composite score based upon four subscales --achievement, personal control, innovation, and self-esteem. The statistical analysis of the instrument was well documented, particularly with respect to the measures of reliability and validity. The pre-test was administered with a paper instrument during the first week of the semester in multiple sections of the same instructor graduate MIS class. The post-test was administered during the last week of the semester. The second administration utilized a web-based survey instrument. There were 34 usable matched-paired observations. Students were assured that the test scores would not be used as a determinant of their grade in the course.

### **Discussion of the Measures**

The EAO measures entrepreneurial attitudes. There are two ways in which attitude is explored in the literature. One way is to view attitude as a strictly affective reaction to an object. The other way -- the tripartite model -- views attitude as a combination of reactions to an object along three dimensions -- affect, cognition, and conation. The EAO takes the latter approach, and measures entrepreneurial attitude across four constructs that previous research has identified as distinguishing entrepreneurs from others (Robinson et al, 1991). These constructs are self-esteem, personal control, innovation, and the need for achievement. The conative component is behavioral and is the predisposition to behave in a certain manner. Affect refers to one's positive or negative feelings about a situation and cognition is the thoughts and beliefs one has about the situation

Questions from each area of the EAO are listed in Table 1. Note that some questions are reverse scored. Sections listed in boldface type are those in which there was a statistically significant improvement.

**Table 1 - EAO Questions Mapped To Component & Subscale**

<b>Subscale</b>	<b>Affect</b>	<b>Component Behavior</b>	<b>Cognition</b>
<i>Achievement In Business</i>	- I get my biggest thrills when my work is among the best there is - I get a sense of pride when I do a good job on my business projects - I feel proud when I look at the results I have achieved in my business activities	- I never put important matters off until a more convenient time - I spend a considerable amount of time making any organization I belong to function better - I often sacrifice personal comfort in order to take advantage of business opportunities - I do every job as thoroughly as possible - I make a conscientious effort to get the most out of my business resources - I will spend a considerable amount of time analyzing my future business needs before I allocate any resources - I make it a point to do something significant and meaningful at work every day	- <b>I believe that concrete results are necessary in order to judge business success</b> - <b>I believe it is important to analyze your own weaknesses in business dealings</b> - <b>To be successful I believe it is important to use your time wisely</b> - <b>I believe that to be successful, a business person must spend time planning the future of the business</b> - <b>I believe that one key to success in business is not to procrastinate</b> - <b>I think that to succeed in business these days you must eliminate inefficiencies</b> - <b>I believe it is more important to think about future possibilities than past accomplishments</b> - <b>I believe that to succeed in business it is important to get along with the people you work with</b> - <b>I believe that successful people handle themselves well at business gatherings</b> - <b>I believe that the authority I have in business is due mainly to my expertise in certain areas</b>
<i>Perceived Self-Esteem In Business</i>	- I feel like a total failure when my business plans don't turn out the way I think they should - I feel uncomfortable when I am unsure of what my business associates think of me - I feel very self-conscious when making business proposals - I feel self-conscious when I am with very successful business people - I feel inferior to most people I work with	- I seem to spend a lot of time looking for someone who can tell me how to solve all my business problems - I usually perform very well in my part of any business project I am involved with _ I often put on a show to impress the people I work with	
<i>Perceived Personal Control of Business Outcomes</i>	<b>I feel very good because I am ultimately responsible for my own business success</b> - <b>I feel resentful when I get bossed around at work</b> - <b>I get excited creating my own business opportunities</b>	- <b>I have always worked hard in order to be among the best in my field</b> - <b>I create the business opportunities I take advantage of</b> - <b>Even though I spend some time trying to influence business events around me every day, I have had very little success</b>	- I know that social and economic conditions will not affect my success in business - I believe that in the business world the work of competent people will always be recognized - I believe that any organization can become more effective by employing competent people - <b>I believe that to become successful in business you must spend some time every day developing new opportunities</b> - <b>I believe that organizations which don't experience radical changes now and then tend to get stuck in a rut</b> - <b>I believe that in order to succeed, one must conform to accepted business practices</b>
<i>Innovation In Business</i>	- <b>I feel very energetic working with innovative colleagues in a dynamic business environment</b> - <b>I get excited when I am able to approach tasks in unusual ways</b> - <b>I enjoy being able to use old business concepts in new ways</b> - <b>I feel terribly restricted being tied down to tightly organized business activities, even when I am in control</b>	- <b>I seldom follow instructions unless the task I am working on is too complex</b> - <b>I feel best about my work when I know I have followed accepted procedures</b> Most of my time is spent working on several business ideas at the same time - <b>I usually delegate routine tasks after only a short period of time</b>	

## Analysis of Results

For the purposes of this paper, a paired T-test for significant differences was used. Students improved on *all twelve measures* contained in the test although only seven measures showed statistically significant improvement. The statistical significance (at the 5% level) may be related to the small sample size and currently additional observations are being captured and will be presented at the conference. The results of the paired analysis are illustrated in Table 2. A more complete discussion of the results will be presented at the conference.

**Table 2: Summary Results of EAO**

	<u>Component</u>		
	<b>Affect</b>	<b>Behavior</b>	<b>Cognition</b>
<b>Achievement</b>			Significant
<b>Self-esteem</b>			Significant
<u>Subscale</u>			
<b>Personal control</b>	Significant	Significant	
<b>Innovation</b>	Significant	Significant	Significant

*Significant at 5% level*

### **Discussion of Results**

While the paired sample size is small and the results are preliminary, there are some observations to be made. Results may be examined in two ways. First, they can be explored along the component dimensions. Cognition scores improved in all but one area, which would indicate that the students beliefs and thoughts were most profoundly affected. Second, subscales may be examined. The innovation subscale showed significant improvement across all three components, yet achievement and self esteem improved significantly only in the cognitive aspects. Each subscale is discussed in more detail below.

The significant improvement across the entire innovation subscale could indicate a change in the manner in which students accomplish tasks. This may be due, in part, to the method by which the project is completed. For student participants unfamiliar with the web or those just learning to use the vast resources available, such a project introduces them to new vistas of information opportunity. Further, the basic project concept is innovative. For some students, it is the first time they understand how all the functional areas of a business integrate; thus, it is for them, a new way of looking at the organization. Several students commented that this level of integration would be helpful in the policy class.

To be successful in the project, student participants also had to change their behaviors. No student could focus on a single functional area. Although each team operated differently, in general, each team member was required to understand the linkage and interaction among the various functional areas. Many of student participants possessed only limited knowledge of such integration from their real-world experiences since they tended to be employed in a functional rather than an executive capacity. Their real-world experiences also tended to be limited to interactions with co-workers within a functional area rather than with individuals who were highly innovative and multi-functional. In an MBA program, student participants are often challenged by having to work with other high-caliber individuals enrolled in the program.

Personal control improvement is significant in two areas: affect and behavior, but not cognition. Once again, since the project allows students to examine the possibilities regarding their own business, it is not surprising those questions such as "I get excited creating my own business opportunities" and "I create the business opportunities I take advantage of" should show significant improvement. Since students choose their own business and then develop the corresponding business plan, they "buy into" the project more completely. Finishing the project and producing a successful business plan adds to their excitement level but it lacks the reality of establishing and sustaining a real business.

Since the project is highly competitive, student participants work hard to demonstrate competence and achieve a better grade. Positive feedback in the corporate world tends to be limited and not particularly timely. In the project mode, the student participants are clearly responsible for all the decision processes and the short-term nature of the feedback may affect this dimension.

In the achievement and self-esteem areas, there was positive improvement in the cognitive area only. One possible explanation for this occurrence is that the project, although rigorous, is simulated and untested in the real world. Students may change their beliefs regarding teamwork ("I believe that to succeed in business it is important to get along with the people you work with) and they may become more future focused ("I believe it is more important to think about future possibilities than past accomplishments"), but they have probably not yet internalized (i.e. feel and behave) as if such is true. Further, although beliefs and thoughts may change more rapidly, feelings and behaviors may be delayed.

## **LIMITATIONS**

There are several limitations with the study that will be addressed in future surveys. The survey instrument was administered in a single instructor's classes. More than one assignment is completed for the class, and it is impossible to tell whether the project discussed in this paper is directly related to the improvement of the scores. Two more limitations of the study concern the lack of an adequate control group and the limited number of completed paired observations.

An additional consideration is that every business class, no matter the subject matter or the assignments, might have a positive affect on these subscales and components. In the future, the pre-test and post-test should be given to students in other MBA classes to measure the effects. Future research might compare the pre and post-test results to the course presented and assignments given to determine which courses and assignments have the greatest positive affect.

## CONCLUSIONS

Notwithstanding the limitations discussed above, the use of such a project does seem to have very positive effect on students of MIS. Students get excited about the "real world" nature of the project and the entrepreneurial opportunities that abound in small businesses. For some student participants, it is the first time they have internalized the interrelationships across all business functional areas. These linkages and the information requirements to support them provide an opportunity for discussion and interaction in the classroom. MIS concerns the manager's use of information for decision making. The project offers the opportunity for discussion based upon experience related to quality outcomes, but also focuses upon the central role of information as the bridge that links isolated business functional islands together.

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## APPENDIX A - Sample Grading Sheet

### Notebook Checklist:

Team: \_\_\_\_\_

1. Cover transmittal letter
2. Statement of purpose
3. Table of contents
  - I. The Business Specifics (20%)
    - A. Description of business
    - B. Marketing
    - C. Competition
    - D. Operating procedures
    - E. Personnel
    - F. Business insurance
    - G. Financial data summary
  - II. Financial Data (20%)
    - A. Capital equipment and supply list
    - B. Balance sheet
    - C. Breakeven analysis
    - D. Pro-forma income projections (profit & loss statements)
      - Three-year summary
      - Detail by month, first year
      - Detail by quarters, second and third years
      - Assumptions upon which projections were based (including www addresses)
    - E. Pro-forma cash flow
4. Screen Prints of web referenced materials

### Presentation (40%):

- A. Delivery
- B. Top/down approach

- C. Business context frame (3-I Business Specifics)
- D. Business Case (3-II Financial Case)
- E. Issue identification
- F. Overheads

**Persuasiveness (including class ranking): \_\_\_\_\_ (20%)**

The presentation should be enthusiastically paced with an emphasis on effective persuasion -- your responsibility is to convince your audience about (1) your understanding of the business, critical issues and financial case, (2) your credibility as demonstrated by your thoroughness of fact gathering, (3) your power to logically derive a business plan based upon the evidence generated in fact gathering, and (4) your ability to help them understand the implications and/or recommendations concerning the business.

**Project Grade:**

Name	Peer%	Grade
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Peer review: For each participant on the team other than yourself, you get 100 points to distributed based upon individual project contribution. All points must be allocated. Your grade is determined by averaging each team member's evaluations times the project grade (subject to a maximum grade equal to project grade). If everyone contributes equally, each individual effort score will be 100% and each team member will receive the group grade as the individual grade.

# **INTERNATIONAL ENTREPRENEURSHIP: CRITICAL ISSUES AND THE 21<sup>ST</sup> CENTURY ENTREPRENEUR**

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## **ABSTRACT**

*Internationalism plays a positive role in development of world economies. Entrepreneurs worldwide are witnessing the globalization of the business landscape and are taking part in the revolution. As globalization of the business landscape continues unimpeded, shifting the focus from domestic to international markets is the next imminent step.*

*This paper is an effort to shed light on the concept, significance, and the critical issues existing under the umbrella of international entrepreneurship as it advances into the 21<sup>st</sup> century. An attempt is made to provide a comprehensive overview of the forces that shape internationalization of small business.*

## **INTRODUCTION**

As the 21<sup>st</sup> century approaches, the changing tides of global trade will increasingly lure those with innovative minds and pioneering spirits across borders in pursuit of unknown, yet promising, rewards. Entrepreneurs are the global economy's most important participant (Naisbitt, 1994). Entrepreneurs worldwide are witnessing the globalization of the business landscape and are taking part in the revolution. Internationalism plays a positive role in development of world economies and there's a tremendous interdependence of the world's economies. According to the International Trade Administration, each year international trade accounts for more than \$800 billion in economic activity. And by 2000, experts predict that the amount will exceed a staggering \$1 trillion (Mulhern, 1998). Small and medium-sized businesses have been credited as a source of dynamism, innovation, wealth creation and employment. Their "breaking out" from domestic environment and encircling niches into international markets will magnify their contribution towards a balanced social-industrial development and entrepreneurial exhilaration across the economic realm (Poutziouris & Michaelas, 1996).

In the past decade, organizations have been attempting to redefine themselves as international in scope. The pressure to internationalize is escalating and is being felt in virtually every organization, whether it is a nonprofit, for-profit, public, private, large or small. This is essentially the tenacity of the organizations themselves as well as the impact of a variety of external circumstances and forces. The need by all types of organizations for international market alignment, and the expeditious worldwide communication system have created an immaculate domain for international entrepreneurship to emerge as a major change agent in the educational institutions and the economy

of the world (Hisrich, Honig-Haftel, McDougall, & Oviatt, 1996). Every firm is now competing in a hypercompetitive global economy (Hisrich & Peters, 1998). Internationalization of small business and international entrepreneurship are considered newer areas of emphasis in international business research (Wright & Ricks 1994). Although research into international entrepreneurship has been sparse, it is clear that international opportunities for smaller entrepreneurial firms are important (Zacharakis, 1997). As globalization of the business landscape continues unimpeded, shifting the focus from domestic to international markets is the next imminent step. It is a complex process for businesses, one that takes serious time and effort, however, it is not impossible (Mulhern, 1998).

### **INTERNATIONAL ENTREPRENEURSHIP**

Entrepreneurial firms are defined in a number of ways. Entrepreneurship as Gartner (1985) points out, is the creation of new organizations or new ventures. According to the Commerce Department, a small business is one that has fewer than 500 employees (Roy & Simpson, 1981; Witney, 1980) and as such are relatively young (typically less than six years old - Brush, 1995).

As the total domain of international entrepreneurship is still in its early stages of research, a broad definition has governed past research. McDougall (1989) has defined international entrepreneurship as the development of international new ventures or start-ups that, from their inception, engage in international business, thus viewing their operating domain as international from the initial stages of the firm's operation. According to McDougall and Oviatt (1997), it is generally accepted that international entrepreneurship is the process of an entrepreneur conducting business activities by exporting, importing (Burch, 1986), or other transactions that take place across national boundaries (Hierich & Peters, 1998). International entrepreneurship is focused on the relationship between businesses and the international or foreign environment in which they operate (Wright & Ricks, 1994). The main objective is to derive a significant competitive advantage from the use of resources and sale of goods in multiple countries (McDougall, 1989; Oviatt, & McDougall, 1994).

### **MOTIVES TO INTERNATIONALIZE**

Although large multinational firms initially dominated the international competitive landscape, the changing economic, technological, and social conditions in recent years (Oviatt & McDougall, 1994) have made it possible for smaller firms to also enter the international race (The Economist, 1993). According to Curle (1998), by entering international markets, even very small companies can increase revenues significantly, as much as 50 percent can come from international markets. These companies can open their doors to global customers and boost market share. Entrepreneurs worldwide are borrowing proven techniques, and talents from bigger competitors, and are moving beyond their home markets (Melcher, Templeman, & Holden, 1989). Oviatt and McDougall (1994) have argued that the gap in competitive advantage between large and small firms in international markets has narrowed and that internationally sustainable competitive advantage has increasingly depended upon a firm's unique assets (Barney 1991; Hamel & Prahalad 1990). Recently, competitive advantage has shifted its focus away from firms large in size and long on experience towards firms with unique knowledge and swift response capabilities (Oviatt & McDougall, 1995). Small and medium-sized businesses have certain advantages over larger firms, including greater flexibility,

speed, and advantage-seeking behavior (Fiegenbaum & Karnani, 1991; Katz 1970; Hitt, Hoskisson, & Harrison, 1991).

Aside from the decision to launch or to end the venture, the decision to “go international” is perhaps the most important strategic decision for a firm to make. This decision must be made only after careful discussion and analysis because it must be viewed as a major and long-term commitment (Gunasekaran, Okko, Martikainen, & Yli-Olli, 1996; Klatt, 1990). Small businesses can lower their risks and heighten their likelihood of success only through strategic steps, from evaluating the best time to go international to exhaustively researching potential partners (Mulhern, 1998). According to Hisrich & Peters (1998), there are four strategic issues that are of paramount importance to the international entrepreneur or an entrepreneur thinking about going international. The first issue is the allocation of responsibility between the operations. Second, is the nature of the planning, reporting and control systems to be used throughout the international operations. Third, is the appropriate organizational structure for conducting international operations. And, the fourth issue to be considered is the degree of standardization possible.

According to Wright and Ricks (1994), even those businesses whose primary orientation is domestic must be internationally competitive in order to secure long-term success. Most frequent explanations for international expansion is that either there is a shortage of domestic market sales to achieve competitive levels of R & D spending (Karagozolu & Lindell, 1998), the domestic market is too small (Mulhern, 1998), the business has already established a strong domestic presence, or the domestic market has become stagnant or is so declining that the only practical prospect for growth is to go international (Mulhern, 1998; Klatt, 1990). Essentially, firms are becoming international because entrepreneurs are motivated by the presence of greater strategic opportunities in foreign markets. Karagozolu and Lindell (1998) argue that these have been made possible due to the easing of restrictions in foreign markets, market growth potential in developing countries, internationally cost-competitors, and internationally cost-competitive manufacturing opportunities. According to Oviatt and McDougall (1995), entrepreneurs indicate that if a large number of a venture’s customers are international or if foreign competitors are entering a previously domestic venture’s territory (Oviatt & McDougall, 1995; Hitt, Keats, & DeMarie, 1998), the venture’s managers are more likely to consider entry into foreign markets. In such cases, the dread of losing customers to competitors may overcome any uncertainty created by possibly inadequate foreign business experience (Oviatt & McDougall, 1995; Johanson & Vahlne, 1990). Other benefits to internationalize are better access to markets, lower production costs and quality of promotion, easier access to funds and technology, and better access to raw materials (Mendoza-Alcoriza, 1993).

The Age of the International Entrepreneur has been facilitated by electronic developments that make the once-remote markets accessible, and the rapidity of technological developments (Morrow, 1988; Karagozolu & Lindell, 1998; Oviatt & McDougall, 1995; Hitt, Keats, & DeMarie, 1998). With increasing homogeneity of international markets (Hedlund & Kevenland, 1985), rapid and worldwide communication and transportation, information about virtually any market is available and is easily accessible (Oviatt & McDougall, 1994, 1995; The Economist, 1993; Porter 1990). Advancements in telecommunications, data processing, and computer software have made international entrepreneurship more attractive (Morrow, 1988) and is enabling companies to satisfy the customers needs quickly and more easily without the traditional distribution hassles (Melcher, Templeman, & Holden, 1989). One of the biggest stimulants to growth around the world is the

revolution in retailing and distribution (Melcher, Templeman, & Holden, 1989). A changing financial scene is also forcing small companies to act more like big ones (Melcher, Templeman, & Holden, 1989). An entrepreneur can very effortlessly arrange for instant global transfers and capital infusions due to the growth of capital markets worldwide (Morrow, 1988). International financing opportunities are increasingly available (Patricof, 1989; Valeriano, 1991) and human capital is more internationally mobile (Johnston, 1991; Reich, 1991). Increases in efficiency have decreased everyone's costs of conducting international business (Oviatt & McDougall, 1995).

### **CHOICE OF ENTRY STRATEGIES**

Beyond exporting (Czinkota & Johnston, 1983; Namiki, 1988), the international strategic options of small firms have not been studied in depth (Baird, Lyles, & Orris, 1994). Resource-constrained small firms do not have as many available entry strategies as do larger multinational corporations. (Curle, 1998). Most small and medium-sized businesses produce a service or product that could be competitive in international markets, but are unsure of the appropriate strategy for entry. This often results in failing to follow-up on global opportunities, or in entering the international arena with insufficient knowledge of managerial and economic considerations (Barnara, 1991). There are several methods of foreign market entry, however, and the choice of entry method and the mode of operating overseas is dependent on the goals of the entrepreneur and the company's strengths and weaknesses (Hisrich & Peters, 1998). In addition, the method chosen will also depend on a variety of factors including the nature of the particular product or service and the conditions for market penetration, which exist in the foreign target market ("Breaking"). Table 1 illustrates some interesting data on the various ways entrepreneurial firms enter into an international market. The most common mode of entry seems to be alliances with foreign distributors and exporting.

Alliances with foreign distributors	51%
Exporting	50%
Overseas sales office	27%
Joint Venture	25%
Licensing programs	24%
Alliances with foreign suppliers	22%
Technology alliances with foreign companies	21%
Using locally hired management	17%
Overseas manufacturing facilities	11%
Foreign acquisition	8%

*Source: (Ernst and Young Inc., 1995)*

As Burch (1986) points out, conditions vary greatly among the several world markets, so more than one entry strategy may have to be developed. The distinctive challenge for the international strategy of a small firm is to overcome the conditions unique to small companies and develop international strategies that are effective in their situations (Baird, Lyles, & Orris, 1994). Whatever their methods, to keep growing in the next decade, a global perspective is a must (Melcher, Templeman, & Holden, 1989).

### **CHALLENGES OF INTERNATIONALIZING**

Despite the dramatic growth in overseas opportunities, small and medium-sized firms are far from realizing their potential. For all the promise of new markets and exploitable gaps in old ones, firms usually face unique challenges in the international competition arena (Melcher, Templeman, & Holden, 1989). The changed dynamics in the newly competitive international business environment has forced these firms to encounter multiple discontinuities that cannot be easily predicted, and often occur simultaneously (Hitt, Keats, & De Marie, 1998). Regardless of whether the new venture always intended international expansion or whether it pursues expansion after it becomes established, the firm faces many difficulties in its international expansion efforts (Zacharakis, 1997). Small and medium sized businesses have to deal with problems that arise because of their size, limited resources and capabilities, limited scope of operations, few connections, tight budgets (Curle, 1998) and related constraining characteristics (Norton, 1994). In many respects, it is often more difficult for the small growing entrepreneurial firm than it is for a major corporation to internationalize (Gunasekaran,

Okko, Martikainen, & Yli-Olli, 1996) due to their insufficiently developed administrative procedures and methods, less formal centralized planning and control systems (van Hoorn 1979; Roth 1992), and the lack of manufacturing know-how and access to distribution channels in the foreign markets (Hull & Slowinski 1990; Karagozoglu & Lindell, 1998). Specialists in industry, government and academia have largely come to the conclusion that the “export gap” exists because of internal and external barriers to small business growth and export development (Poutziouris & Michaelas, 1996).

Several studies suggest that the major obstacles or barriers for international expansion are difficulties in forming international partnerships, lack of international management skills and experiences, long-standing problems of management control (Melcher, Templeman, & Holden, 1989), and lack of competence to exploit international opportunities (Karagozoglu & Lindell, 1998; Gunasekaran, Okko, Martikainen, & Yli-Olli, 1996). Penetration into foreign markets requires sensitivity to the needs of foreign consumers, and an awareness of cultural distinctions (Morrow, 1988; Karagozoglu & Lindell, 1998). Finding the right partnership opportunities, managing the partnership process once formed, understanding target market differences (Zacharakis, 1997), understanding the differences in resource availability in relation to large global competitors, and adapting to differences in national cultural environments (Sandstrom, 1992) often challenge the small businesses in the international domain (Karagozoglu & Lindell, 1998). The entrepreneurial management and expertise so critical to their viability also limit their growth and expansion due to their unwillingness to hire and delegate to an experienced manager (d’Amboise & Muldowney 1988).

Stemming from the resource constraints, other barriers faced by small businesses are limited knowledge of productivity, quality improvements, tapping new markets, raising funds, global markets, competitors (Karagozoglu & Lindell, 1998), and acquiring new technology (Norton, 1994). These arise, primarily, due to the technological intensity of competition in the international arena, global scanning and the gathering of competitive intelligence for R & D (Kokubo 1992; Hakansson & Henders 1992). International competition requires more efficient and effective management of the R & D process and other functions and activities (Lefebvre, Lefebvre, & Harvey 1993). Very few entrepreneurs view their inability to generate competitive R & D funding as a barrier to their internationalization. In their findings, Lefebvre, Lefebvre, and Harvey’s (1993) support the lower frequency notion of this barrier by suggesting that successful exporting depends more on process innovativeness and supportive management actions than on R & D expenditures.

International expansion indeed involves risks (Gunasekaran, Okko, Martikainen, & Yli-Olli, 1996; Zacharakis, 1997), of all sorts including political instability in the target market, social unrest, fluctuating exchange rates, poor infrastructures, host government regulations, differing language, norms, religion, and legal systems (Zacharakis, 1997). Moreover, it’s a very difficult environment to operate in as governments change, regulations change, and the laws themselves change (Norton, 1994). Major obstacles to implementing international strategies for smaller entrepreneurial firms are the cautious financial climates (Melcher, Templeman, & Holden, 1989), lack of inadequate financial reserves, and the ability to raise funds (Gunasekaran, Okko, Martikainen, & Yli-Olli, 1996; Zacharakis, 1997).

Karagozoglu and Lindell (1998) found, that in addition to the above mentioned barriers, there is another set of obstacles to international trade that is faced by all companies, whether large or small. These obstacles are commonly referred to as trade barriers. Tariffs and quotas are the traditional means through which a country attempts to protect selected domestic industries. Non-tariff barriers

include quotas, product standards, disparities between patent laws, national security considerations, and various host country laws and regulations. However, these particular types of barriers do not seem to affect a large percentage of small businesses. It is also possible that the firms may not produce these particular types of products in large quantities to be greatly effected by these barriers, or may have benefitted from the recent elimination of these barriers (Julien, Joyal, & Deshaies, 1994; Baret, 1995). All these factors, of course, would also pose potential barriers to exporting and to foreign direct investment options (Karagozolu & Lindell, 1998).

## CONCLUSION

At present, the specific internal and external conditions that drive entrepreneurs to take on the additional risk of competing internationally is poorly understood (Oviatt & McDougall, 1994). Traditional theories and models of internationalization have concentrated primarily on the international activities of large, mature firms, often in the context of the United States Theory that combines the realities of the changing international environment with traditional perspectives is necessary to explain whether or not firms should seek rapid internationalization of activities. An expanded qualitative study or quantitative survey should be conducted to enlighten the different issues pertaining to international entrepreneurship. Government must also take an active role in funding and conducting extensive research in this dynamic field owing to its valuable contribution to the global economy.

The journey to international markets needs motivation, commitment and patience as necessary gear for entry. ("10-Step"). It is important for entrepreneurs contemplating international activities to evaluate not only their industry's requirements for internationalization but also their firm's strategic and structural characteristics (Bloodgood, Sapienza, & Almeida, 1996). A new cultural awareness, coupled with the worldwide availability of data, gives international entrepreneurs the opportunity to use resources and to penetrate foreign markets (Morrow, 1988). Entrepreneurial survival is tenuous. A mistake in the international domain may propel an otherwise healthy entrepreneurial company out of business. Approximately 25% of all new businesses fail within two years and 62% fail within six years (S.B.A. Report to the President, 1992). The risks of international operations multiply the usual liabilities of being new and small. However, the risks of domesticity may be just as high when markets are global (Oviatt & McDougall, 1995). Moreover, if the entrepreneurial firm suffers a large international failure, that failure could have irreversible repercussions on the firm's domestic business, which might jeopardize the firm's entire survival (Zacharakis, 1997). Going global can be a challenging experience for a small business, but the rewards can be substantial. ("Breaking")

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# GUIDELINES FOR INTERNATIONAL ENTREPRENEURSHIP: A STUDY BASED IN GEORGIA'S MUSCOGEE COUNTY

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## ABSTRACT

*Regardless of the size and the type of a business, developing a business plan is probably the most important process that entrepreneurs undertake prior to establishing their venture. This plan in turn requires an interdisciplinary background and extensive research. Only after the evaluation of business potential in light of this research, should an entrepreneur determine the best direction for the future of his/her start-up.*

*This paper presents the preliminary considerations for establishing of a small business venture in Muscogee County, Georgia. Although many of the same basic principles apply in different business settings, for practical purposes, a case of an import/export start-up for textiles and apparel trade will be examined. It is intended that an entrepreneur with no previous knowledge could use these findings and sources as a step-by-step guide for an import/export textile and apparel venture.*

*The scope of this paper limited to basic information on business planning issues, importation, international payment, purchase, shipment terms, governing laws and regulations for the textile and apparel trade. Import/export business related books, publications, the Internet, and direct personal contact with area specialists were the three main methods used to gather necessary information.*

## INTRODUCTION

The World has been transforming into a single global market with the help of advancements in communication and information technologies. These advancements together with the agreements such as GATT 1994, which paves the way for liberalization of international trade, create opportunities for well prepared entrepreneurs all around the world. Research and subsequent informed decisions will provide means to turn these opportunities into business success.

One of such important agreements that would substantially change the global trade arena is the Agreement on Textiles and Clothing (ATC) which was signed by the World Trade Organization (WTO) members on January 1<sup>st</sup> 1995. Under the agreement, WTO members will remove the quota restrictions and integrate the sector in to GATT 1994 rules within a ten-year period, which ends on January 1<sup>st</sup> 2005. Implications of ATC on the US businesses are varied. Domestic producers of textiles and clothing items perceive ATC as an obvious threat to their already troubled industry. Entrepreneurs armed with the knowledge of global markets and international trade practices, on the other hand, will be able to use these environmental changes in business world for the success of their ventures.

The following sections will cover several important aspects of beginning of an import/export venture.

## **PLANNING**

Starting a business requires careful research and planning. An import/export business is no exception to this rule. Well-prepared business plans provide broad and complete views of the business under consideration. Instead of dealing with problems as they arise, an entrepreneur fortified with a sound plan, will be able to exercise maximum control of events in a proactive manner. Another important aspect of a business plan is that it is dynamic in nature. In other words, entrepreneurs should continuously analyze situations and make necessary changes with the direction of their business.

A business plan should include a business description, marketing plan, financial plan, and management plan. Although each of the above constituents of the business plan appears to be separate, practically speaking each of them will have effects on others. For example, most of the entrepreneurs first decide on the market and product related issues and from there continue with the rest of the planning. As a matter of fact, the success of the business venture will largely depend on how well the business plan constituents are integrated with each other. The remainder of this section is allocated to presenting the basics about four major business plan topics. At the end of the section some important questions that should be answered before establishing of an import/export start-up will also be presented.

The business description should provide a detailed picture of the business under consideration. This detailed description will be provided by legal aspects such as business form and license/permit requirements, business type information, product and service descriptions, prospects of growth and success for these product and service offerings along with the underlying rationale such as why these products and services are important to customers, and finally location-related information.

Marketing plays a vital role in the survival and growth of business ventures. Besides marketing, there are only a few other considerations that would have the power to shape the future direction of those ventures. The road for successful marketing comes from the knowledge of customers and competitors. Basically, what the marketing plan incorporates is a very detailed presentation of this knowledge. Definition and characteristics of target market(s), considerations about how to gain and increase market share for these target markets, product, price, place and promotion-related decisions, and thorough analysis of competition should be included in to the marketing plan.

Financial management is broad and important activity. Sound application of its principles can be considered as a prerequisite for the success of the business. Two main components, start-up budget and operating budget, constitute the basic structure of a financial management plan. Among the expenses that should be considered are personnel, legal and professional fees, license and permit fees, costs of equipment and supplies, insurance premiums, rent, salary and wages, and taxes. In light of the estimated figures, budgeted financial statements should be prepared and used as the benchmarks for the operation of the business.

The last major component of the business plan is the management plan. Generally, the management plan concentrates on specific skill requirements of the business venture, and sets the

guidelines for how these requirements will be met. Self assessment of the strengths and weaknesses in the proposed field, employee hiring needs, and related management methods are some key points that an entrepreneur should carefully consider and incorporate into the business plan.

In addition to the above general business planning considerations, there are more specific questions that entrepreneurs who are planning to form an import/export venture should be able to answer satisfactorily including:

Why are you interested in import/export business, and what are your objectives?

What are the reasons that will help to your success?

What do you know about the international trade terms and practices?

Which laws and regulations will affect the future of the operation of your business?

Do you plan to import, export or both?

Do you plan to work as an agent or merchant?

### **BUSINESS LICENSE AND REGISTRATION**

The business license and registration procedures can be divided into three stages: city, state, and federal government requirements. Below are necessary actions that should be taken to establish an import/export business.

In order to register a business and obtain a license in Muscogee County, Georgia, the first stop for the entrepreneur will be the 'Inspections and Code Enforcement Division' of the Consolidated Government of Columbus, Georgia. From this division, the business owner will obtain a 'certificate of occupancy'. The purpose of this document is to make sure that the business and the suggested location of it is in compliance with the zoning laws in effect. Application for license can be made to the 'Business License Division' of Consolidated Government of Columbus after receiving a certificate of occupancy document. Since an import/export business is not directly related to the public safety and security issues, many of the permission requirements that are enforced with other businesses are not applicable and thus omitted.

According to the type and nature of the business, state regulations may apply to the licensing process. 'Georgia Secretary of State, Licensing Board Division' is the point of contact for obtaining pertinent information about state requirements. From them, business owners should obtain the 'checklist of state requirements', which also includes taxation related issues. For the import/export businesses, there is no special state level requirement enforced by this division.

At the federal level, two agencies were contacted to obtain license and registration requirements: United States Customs Service (USCS), and Bureau of Export Administration. Information provided by them confirmed that neither of these two agencies is dealing with operational license granting to the individual firms, and in fact, there are no general licenses such as 'import license' or 'export license'. Instead, these agencies regulate the transactions at the product import or export levels.

Final analysis of above discussion reveals that general basic requirements apply to the establishing of an import/export venture, but there are no particular requirements for this type of businesses at the local, state or federal levels.

## **BASICS**

In the United States, importation of products is regulated for the several purposes such as national security, public health and safety requirements. Main tools for the control of goods entering in to the country are permission requirements and volume limitations applied by means of quotas. Importers of textile and apparel products, should consider tariffs and quotas, packaging and labeling requirements (can be obtained from Textile Fiber Identification Act), and also the relevant regulations enforced by the Consumer Products Safety Commission. For the exports, similar permission restrictions are applied by USCS. Normally for every kind of product leaving the United States, there should be an accompanying export license. However, for particular groups of products, exporters are allowed to grant export licenses for themselves by declaring that the products being shipped are not from the restricted categories. In the remainder of this section, basic considerations for importing into the United States are presented. Main topics include product, price, and volume of imports, and source country/supplier selection. Information about US Customs Service and standard importation documents will be analyzed in the next section.

Characteristics of products play the most significant role in the import business. Nearly all products are categorized under the national and international categorization systems. Answers to questions like ‘Whether a product can be imported into the country or not?’ ‘If so, what are the specific health, safety, quality, packaging and labeling requirements and quantity limitations?’ are provided on the basis of product classification numbers.

Price matters have a dual function in the import/export businesses. First, like in any other business, price is one of the main determinants in the realization of a particular transaction. Second, price or total value of products are used for the computation of payable customs duties, thus the higher the price, higher the customs duties.

If the imported items are for sample purposes and below certain amounts in value, they are not subject to quota, certification and visa requirements. Textile and apparel samples below the value of US\$250 can be imported under informal entry procedure, but they are subject to any applicable duties. Volume of imports also acts as a determinant in selection of purchase agreement methods and related documentation needs. For example, small orders can be imported under purchase orders and purchase order documentation. Large and on-going orders may require more formal documentation, shipping and payment methods.

Selection of source country, supplier, and compliance with foreign law is another basic factor that may influence the success of import transactions. Once the buyer decides which products to import, the next step he/she should take is the determination of source country and supplier. Although international trade is moving towards the elimination of quotas, there are still certain regulations that limit the quantity of imports, and set the duty rates to be applied for the imports from different source countries. The ability to find high quality and low cost product suppliers, general stability in economics and in politics, level of communication and transportation infrastructure, physical proximity, international trade laws, regulations and practices in those countries are some of the main issues that importers should take in to account before determining the source country. Importers should also be able to identify the suppliers that can provide required products, and compare them in terms of price and quality of their products. Supplier product delivery capabilities and previous export experiences are also among the critically important issues for the importers.

## **THE UNITED STATES CUSTOMS SERVICE (USCS)**

USCS is the government's law enforcing body with respect to everything entering to, or exiting from the borders of the United States. It is headquartered in Washington D.C. and has district branches through out the US. In the state of Georgia, USCS has 'Customs Management Center' in College Park, 'Ports' in Atlanta, Savannah, and in Brunswick. The remainder of this section is allocated to specific procedures relevant to USCS.

Classification and valuation of products is the first step that should be taken through the USCS. Before arranging any purchase agreement, the buyer should contact the USCS or even better, take the samples of merchandise to the USCS to make sure that exact classification can be determined. USCS has classification and valuation (C&V) officers who are specialized in determining which products fall into which categories and in the valuation of transactions under consideration. C&V specialists are the ones who most directly concern the importers. Decisions of the C&V specialists about the classification, valuation and duty status of the products are the final rulings unless a formal objection is made against them. Import permission, rate of customs duties, quota and visa restrictions are all based on the classification of products. The US Textile and Apparel Category System, and Harmonized Tariff Schedule of the United States Annotated (HTSUSA) are the two categorization systems that are relevant to importers of textile and clothing products.

Duties are special taxes that importers should pay for the entrance of goods in to the importer's country. The United States Customs duties range from zero to about 100 percent. By using classification and country of origin information, importers can find whether the merchandise under consideration would be eligible for duty free or reduced duty categories. There are also bilateral trade agreements that specify limits to applicable duty rates. For example, import duties for the products from the countries with most favored nation (MFN) status with the United States usually range from zero to ten percent. Duties are calculated by using one of the following three methods: ad-valorem, specific, and mixed. Ad-valorem means 'percentage of value' and for customs purposes the term value refers to transaction value. Specific duties are charged on the basis of units, for example \$X per dozen. Mixed or compound duties are the combination of the ad-valorem and specific duties. In addition to discussed basic duty classifications, there may be other special duties such as anti-dumping, and countervailing duties that importers should be aware of before engaging into any importation agreement.

Import quotas are the main means of control over the quantity of the products that can be imported from certain countries. Under 'absolute quota' conditions, once a certain amount of products has entered into the country, no further importation can be made. 'Tariff rate quota' implies that certain amount of goods can be imported at a lower duty rate, and once this amount is surpassed, further imports are only allowed at a higher duty rate. From the USCS, applicable duty rates for product groups can be obtained. In order to have that information, the importer should provide USCS specialists with the classification number (HTSUSA or The US Textile and Apparel Category System), and with the country of origin information of the product.

First time importers should apply for a special number called importer's number, which will be used for documentation of imports. This number is usually Federal Employer Identification Number, or in case of individual importers Social Security Number. All the liabilities that may arise from customs duties, penalties and other charges belong to the importers. This charge is still the case

even when these penalties or charges are results of exporter's or customs broker's negligence with the USCS regulations. Thus, in order to guarantee that all the duties, charges and penalties that may incur during the importation process will be paid properly, USCS requires 'importation bonds'. When buyer imports merchandise in to the United States, and clear it from the Customs, duties paid are only the estimated ones. In other words they are based on the information submitted by the importer. Within one year after the clearance of goods, the USCS reviews the entry and re-evaluates the value and corresponding duty of importation. This process is called 'liquidation'. If the previously paid amount is the same with the newly computed one, no change is necessary. If it is higher than the new amount, then USCS refunds the difference to the importer. The third case, in which the importation bond comes in to play, is a critical one. If the amount of duty paid at the time of entrance is less than the newly calculated amount, USCS informs the importer and asks for the difference along with any other charges. The importation bond is a tool for assuring USCS that in case of such discrepancies, the difference will be paid back to USCS. The same bond can be used for guaranteeing that any missing documents will be supplied to USCS within a certain period of time. There are two types of importation bonds: single transaction and continuous transaction. As the names imply, single transaction bonds cover single importation, whereas continuous bonds cover a specific period of time, usually one year. In order to obtain an importation bond, importer should apply to a Surety Company and undergone credit investigation. Depending on the circumstances, customs brokers may allow importers to use their importation bonds for a fee.

A licensed customs broker is the agent of the importer for clearing goods through customs. Although there is no requirement or law saying that importers should use customs brokers, most companies, even the big ones which have their own import departments, use the services of customs brokers. When selecting a customs broker several points should be considered. The level of expertise with product groups to be imported, and financial stability are important. Customs brokers require 'power of attorney' from their clients and act as agents for them. All of the customs clearance procedures, including payment of duties and other charges are carried out by brokers. But the responsibility of any kind of wrong doing, intentional or accidental, belongs to the importer. Thus, importers should carefully review the power of attorney and make sure that it does not include any provisions that would hold the importer responsible for the faulty actions of customs broker. Fees charged by brokers are not regulated and can vary substantially. This point should also be among the considerations before selection of broker. Finally, most of the customs brokers have contacts with the freight forwarders. Even some of them have their own freight forwarding divisions, and they can arrange delivery of the imported products right at the address of the buyer.

## **PACKAGING AND LABELING**

Proper packaging and labeling is another important aspect of the international trade. If products imported are subject to different duty rates, they should be packaged and identified in such a way that customs inspection and clearance can be made easily. Also, packaging should be strong enough to withstand shipments without causing any harm due to transportation. With out proper labeling, imported goods can not be cleared from the USCS. Careful examination of required labeling specifications is a must for the importer. The importer should also make certain that exporters comply with the specific labeling instructions. For textile and apparel products 'The Textile Fiber

Identification Act' and 'Wool Products Identification Act' provide the required labeling instructions. Lastly, regulations enforced by the Consumer Products Safety Commission should be examined to find any pertinent requirements.

### **INTERNATIONAL TRADE DOCUMENTATION**

International trade documents can be classified in to four major categories: commercial documents, banking documents, transportation documents and government control documents. Commercial documents can also be regarded as 'purchase' documents. Main types of commercial documents are price lists, request for quotation (RFQ), pro-forma invoice, purchase orders (PO), purchase order acknowledgement, commercial invoice and confidentiality statements. Sometimes sellers send price lists to potential buyers. In these cases, buyers should not regard price lists as a formal offer to sell for the indicated price. If the buyer is interested in the products, then the next step will be a request for quotation. Buyers should clearly specify all the terms and conditions of possible purchasing so that there will not be any dispute over terms and conditions if transaction occurs. Buyers should also emphasize that RFQ sent is not a purchase order. Seller's response to RFQ is usually a quotation or 'pro-forma' invoice. A pro-forma invoice is the same as a commercial invoice with a difference. Pro-forma means if the commercial invoice were printed, it would look like as the pro-forma invoice. Also the receiver of the pro-forma invoice does not pay. This invoice is a formal way of providing a price quotation. Buyers should carefully examine price, quantity, terms and conditions sections, and should request corrections or negotiation before placing a purchase order. The purchase order is the most important document from the buyer's point of view. The importer should include all the necessary information about the terms and conditions of payment, shipment, price, quality and quantity of products. The commercial invoice, 'bill' is one of the documents that will be submitted to the USCS for entry of goods. Commercial invoice should include: port of entry of the merchandise, names of the seller and buyer, invoice date, country from which the shipment is made, detailed description of the merchandise, quantity and purchase price in the currency actually used for the transaction.

There are four major types of international payment methods and related banking documentation: cash in advance, documentary letter of credit (L/C), documentary collections (D/P or D/A), and open account. A main point of consideration in payment methods is the level of protection provided to the seller in case the buyer fails to satisfy payment terms and conditions. In cash in advance type of payment the buyer pays for the goods prior to shipment. This form of payment provides excellent security for the seller, but buyer security is at the minimum level. Cash in advance payments are not very common in international trade, and should only be considered when the importer is sure about the shipment of goods in agreed quality and quantity. The documentary letter of credit (L/C) is the most common type of international payment methods. Security level of L/C payments vary with the type of the L/C method used. Revocable L/C means that buyer can stop the L/C procedure, or modify the L/C without notifying the seller. In case of irrevocable confirmed L/C both buyer's bank (issuing bank) and seller's bank (advising bank) guarantees payment to the seller as long as terms of documentation of the L/C are met. With the documentary collection type of payment seller ships the goods and sends the documents (bill of lading, commercial invoice, title and so) to remitting bank (seller's bank). Remitting bank sends these documents to collecting bank

(buyer's bank). In 'documents against payment, D/P' the buyer can be eligible to receive the documents, which will be necessary for taking the title and clearing goods from customs, only after payment of the agreed purchase amount to the collecting bank. In 'documents against acceptance, D/A' the buyer agrees to pay to the seller's bank within a specified period of time by signing a bank draft. After signing the draft, the buyer will be able to receive the documents. The final form of international payment, open account, yields the maximum level of security from the buyer's point of view. In essence, the seller ships the goods and sends the documents to the buyer. Then, the buyer pays for the goods within a previously agreed period of time.

The main transportation documents are packing list, bill of lading and arrival notice. A packing list is a document that shows how many boxes there are in a shipment, how to identify each, and what is in each of them. Bill of lading is the proof of receipt of merchandise for transportation to the destination specified in the bill. It also represents a contract of carriage and a temporary title document. There are several types of bill of lading such as road, rail, ocean and air bill of lading. USCS requires the importer of the record to present a proper bill of lading for clearance purposes. And the arrival notice is the document sent by the carrier to the importer or its broker after the arrival of goods to the specified destination. The importer or customs broker will have five days to supply the necessary documents to the USCS and make an entry.

Basically, there are three types of government control documents required by the USCS: entry/immediate delivery or entry/summary, importation bond, and commercial invoice. For the textile and apparel imports, one additional document 'product visa' is also required as a fourth document. With entry/immediate delivery, the importer submits importation bond to USCS and then applies for the immediate delivery of the goods from customs. For this application, it is not necessary to pay all the duties or present all the relevant documents to the USCS in advance. After application, the importer or customs broker receives ten days to file an entry/summary document and supply all the relevant documents along with incurred duty payments. Entry/summary is the main document used to enter goods in to the United States. Either entry/immediate delivery or entry/summary documents must be submitted to USCS within five days of arrival of goods to the port of entry. Importation bonds, as mentioned earlier, are means of assuring duty, charge and penalty payments that may incur will be properly paid by the importer to the USCS. Finally, certain products from certain countries can be imported to the US only if they have permission from the exporter's government, and this permission is granted in the form of product export visas. Visas are tools for controlling imports like quotas. The main advantage of visa usage is the elimination of out of quota arrivals to the US. Limits are agreed upon by bilateral discussions between US and the source countries.

## TERMS OF PURCHASE AND SALE

International trade requires standardization of frequently used trade terms to clearly specify respective obligations and to prevent misunderstandings between buyers and sellers. There are a number of nomenclatures devised for standardization of trade terms. The most common one is 'International Commercial Terms, INCOTERMS'. In addition to Incoterms, Revised American Foreign Trade Definitions, and abbreviations of US Uniform Commercial Code can be used for the same purpose. Incoterms provide standard definitions for the transport costs, which the seller will cover, point of risk transfer from seller to buyer, which party will be responsible for the customs clearance, payment of duties and insurance premiums. Incoterms can be categorized into four main groups: e-terms, for which buyer takes the responsibility at the seller's place or factory, f-terms, for which buyer is responsible for the main international carriage, c-terms, for which buyer assumes the risk of the international carriage but the cost of transportation is paid by the seller, and the d-terms, for which seller takes all responsibility of costs and associated risks to the agreed point of destination.

## CONCLUSION

This paper's purpose is to introduce the basic aspects of import/export business to the persons having no background knowledge in this particular area. It is also a fact that no single study would give a full picture of any kind of business unless the authors were actually involved in establishing and operating that venture. However, international trade fundamentals presented in this paper, and reference information provided may serve as a guide to entrepreneur.

There are no particular license and registration requirements for import/export businesses other than common state and local legalities. In fact, according to United States Customs Service, even individuals who do not own a registered company can import or export, as long as they meet other common requirements.

Knowledge of basic international trade terms and practices is a must. Some of the important ones are presented in the body of the paper. Constant research and study, however, should be a part of the entrepreneur's agenda to keep up with the dynamic nature of the international trade. Accidental or intentional mistakes can be quite costly, and in times may lead to the termination of business.

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## **USEFUL WEB SITES**

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<http://www.wto.org/>

The U.S. Customs Service.

<http://www.customs.ustreas.gov/>

The Bureau of Export Administration.

<http://www.bxa.doc.gov/>

Trade Information Center, The U.S. Department of Commerce.

<http://www.ita.doc.gov/tic>

The U.S. Export Assistance Center, The Commercial Service of the U.S. Department of Commerce.

<http://www.ita.doc.gov/uscs>

Trade Compliance Center, The U.S. Department of Commerce.

<http://www.mac.doc.gov/tcc/>

The U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA).

<http://otexa.ita.doc.gov/>

The U.S. Small Business Administration.

<http://www.sba.gov/starting>

Wells Fargo & Company.

<http://www.wellsfargo.com/inatl>

The National Customs Brokers & Freight Forwarders Association of America.

<http://www.tradecompass.com/ncbfaa/>

# EXPLORATORY RESEARCH ON PROMOTING ENTREPRENEURSHIP IN SMALL COMMUNITIES

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## ABSTRACT

*Rural communities frequently lack the resources, expertise, and infrastructure to enhance economic development. This inadequacy is particularly noticeable when community leaders want to encourage new business ventures or help existing small businesses. To compound the challenges for enhancing entrepreneurship, many outstanding individuals and college educated people are forced to migrate to urban areas. These people are ideal candidates for starting or growing a small business in rural areas. Nevertheless, they are unable to sustain an economic livelihood.*

*Naturally, there has been tremendous hype about the role of Ecommerce and the World Wide Web in eliminating geographical limitations of promoting rural businesses. This trend has certainly aided many “tech nerds” to start or grow their small businesses in some rural areas. Nevertheless, most prospective entrepreneurs –those who are and are not technologically savvy- lack the capabilities, interests, or desires to start an Internet related business. Moreover, many rural small businesses often have other unmet commercial needs and requirements that go unfilled. These potential businesses are frequently in areas that are not technology based. Thus, there is first a need for a favorable environment that provides opportunity analysis, networking, capital, moral support and similar variables for enhancing rural entrepreneurship.*

## OVERVIEW

In a previous article (Weinrauch and Miller, 1998) it was noted that too many rural areas lack the resources to develop the infrastructure of roads, rail spurs, water lines, sewer capacity, ready plant sites, utilities, logistical support, and other needed support to encourage economic development. This negative situation can create additional problems for prospective entrepreneurs. In addition, entrepreneurs and existing small business owners in rural areas may lack the critical wherewithal for networking, financing, education support, job skills for the 21<sup>st</sup> century, and support systems. The Appalachian Regional Commission (ARC) offered five vital factors that could build entrepreneurial economies in smaller communities (White 1997). These included:

- Access to Capital and Financial Assistance
- Technical and Managerial Assistance
- Technology transfer
- Entrepreneurial Education & Training
- Entrepreneurial Networks

Interestingly, there is frequently a bipolar situation between those communities that are prospering and those communities that are experiencing economic upheaval and job displacement. For example, in the Ohio Valley Region, many urban communities are experiencing tremendous economic growth and renaissance while other smaller communities are losing major manufacturing employers to foreign countries with cheaper labor. The textile industry is a good example of firms relocating in emerging countries. Many of the firms that are leaving are often the largest employers of small towns. The State Government of Tennessee, for instance, has even designated certain rural counties as high-risk areas for major economic problems (Economic Community Development Memo 1997).

The federal government also has a high interest in helping rural communities with small business growth. It is a major provider of small business training to rural areas. Yet, some writers for the federal government noted that multiple employment training programs need a major overhaul to create a more efficient customer-driven system for small business owners. In one report, three major barriers were identified: 1. Economic costs for participating in small business training and advisory services 2. Institutional constraints with government rules that discourage or disqualify participation of small businesses and 3. Informational problems created by the government. This includes the inability to identify training needs or acquire adequate knowledge about available training programs (General Accounting Office, 1996). The need to create training, advisory services and a MORE EFFICIENT CUSTOMER-DRIVEN SYSTEM FOR RURAL ENTREPRENEURS is particularly relevant to rural entrepreneurship.

To also encourage rural economic development, it is also essential to make a distinction between the microenterprises, “mom and pop” businesses (or mice), and the rapidly growing businesses (gazelles). Rapidly growing businesses need different support and infrastructure than many of the other types of small businesses (Weinrauch 1995). A few gazelles in a rural area can have profound implications to economic vitality of a small community. A generic program satisfying all entrepreneurs and existing businesses will not suffice.

## **PURPOSE AND OBJECTIVES OF THE PAPER**

Previous articles on rural entrepreneurship have sometimes been based on conceptual articulation, cases, or vignettes. Consequently, there is an on-going need for more primary research that results in feedback from the many stakeholders of small business growth in small communities.

The purpose of this paper is to examine the perceptions and responses from 20 rural community government related leaders who serve, advise, and encourage the small business sector. These respondents have a wealth of experiences –including a number of years in working with small business owners as well as creating government policy in these small towns. Furthermore, many of them are entrepreneurs themselves since their public duties are often done as volunteers. They provide a convenient sample on the needs of the rural small business sector. Perhaps more importantly, most of the respondents serve some rural areas that are considered “high risk”. This designation is due to declining industry sectors (e.g. apparel) and/or has high unemployment rates. (Given recent national statistics, unemployment may seem like a moot point, but for many of the respondents this is a major issue).

In short, our respondents are extremely concerned with rural economic development. They are quite cognizant and vocal about the need and process for supporting small businesses as well as being proactive in helping new ventures get started.

The qualitative study consisted of personal interviews, self-administered questionnaires, and a number of government sponsored brainstorming meetings with these individuals. The results offer some wide-ranging ideas that could serve as a foundation for further research on rural entrepreneurship. The conclusions may also reinforce some anecdotal evidence about enhancing the small business sector in smaller communities. Our study may also give some additional insight and credence to those previous articles that took either a conceptual or empirical research approach. And finally, the study may partly help to develop survey questionnaires that could then be administered to a larger sample.

## **RESULTS OF THE STUDY**

### Biggest Problems and Challenges for Rural Entrepreneurs

With a number of brainstorming sessions and self-administered questionnaires with the community leaders and small business advisors, it was concluded that their immediate concerns and comments could be summarized in two major areas:

#### Role of Community leaders and government support teams

- Fragmentation of support services for rural entrepreneurs
- Inappropriate business training for the rural users of government sponsored services
- Insufficient support groups for rural entrepreneurs once they got started with the business
- Inadequate use of the latest technology by both the support groups and the entrepreneurs
- Poor dissemination of information on the available support services
- Overcoming the myths and misconceptions on successful rural entrepreneurship
- Better team work from all of the different rural support groups for developing government assistance and grant writing
- And, developing effective policies and programs that encourage industrial recruitment of new industries while still growing existing businesses in the region.

#### Define priorities for knowledge enhancement of the targeted market

As might be expected the leaders, wanted to deal with popular small business training in marketing, management, accounting, small business plans, cash flow, technology applications, Ecommerce, and the like. The topics were neither controversial nor surprising.

It should be emphasized that the major preoccupation dealt with how to effectively enhance the process of helping rural entrepreneurs.

### Future Opportunities and Challenges for Small Business Service Providers

Interestingly, our government leaders and advisors had only a few major concerns on how they may improve their own environment which would then help to better serve rural entrepreneurs. Many of them were frustrated with the constraints of their jobs. For example, time, money, political changes, reorganization, and intermittent commitment from government leaders would sometimes exasperate their problems in promoting rural entrepreneurship. Some of the more salient frustrations were as follows:

Reduce the red tape

Educate current and future entrepreneurs on all of the available support services

Encourage and rewarding interdisciplinary and regional agencies teamwork

Avoid political favoritism within government agencies as well as serving certain entrepreneurs

Improve the channel of communication between government officials and the business community

Appreciate the local and unique mores, traditions, and networks of an individual small community in question

Expedite the decision making process from government leaders

Stay focused and committed to serving rural entrepreneurs, including strategic budgetary support

And, provide the necessary infrastructure that will help small business creation and growth, including such things as modern roads, technological infrastructure, and so on.

### Differences Between Rural versus Urban Entrepreneurship

Some small business scholars and students may argue that there really is no difference between entrepreneurs who reside in either urban or rural areas. This argument may even be buttressed with advanced technology and better telecommunications (Greising 1995). Thus, it may be superfluous to make a distinction and it may confuse the process of encouraging new venture creation or growing existing small businesses.

Our participants, who have a wealth of experiences in smaller communities, had some interesting conclusions about this debate. They see the following major differences as follows:

- Access to resources and networking
- Longer distances to customers, resources, and services
- Smaller customer base
- Lack of convenient services and the location of these services
- Logistical requirements and needs
- Availability of resources
- Less opportunities
- And a greater need to obtain direct assistance.

The authors of this paper have served as small business advisors in both urban and rural environments. The above perceived differences seem to be common in some urban areas as well. However, the rural leaders' perceptions –right or wrong- may be just as important. When creating

a viable government and broad based community entrepreneurial program for economic development, these perceptions must be recognized.

### Recruiting New Businesses versus Helping Existing Businesses and/or New Venture Creation with Current Residents

As noted, sometimes there is a friendly debate between students of rural economic development on the best ways to grow and enhance a region. It is beyond the scope of this paper to try to address this subject. It was noteworthy, however, to observe the reaction of our respondents to this complex question, especially when many of them were in the designated "high risk" areas which could then become very economic depressed areas.

In a nutshell, most of the respondents kept repeating the strong belief that it is very difficult to attract new industry to isolated rural areas. They cannot compete with communities that may have greater resources as well as better access to major markets because of better roads, support services, a skilled workforce, and infrastructure. Also, some of our community leaders did try very hard to recruit new industry to their areas. They felt that too much time and limited resources were wasted on this endeavor. Consequently, during the various sessions and with the self-administered open-ended questions, our respondents concluded that the first priority was to help existing small businesses to prosper while encouraging new business startups. The respondents also wanted to make sure that they created a positive environment so they did not lose existing small businesses to other rural communities. Another major concern was how to help "Main Street" in competing with such category killers, such as Lowes, Home Depot and Wal Mart. There was some fear that these larger firms would hurt the very way of life in Small Town USA.

### Recommendations and Opportunities for Future Growth

There was a wide range of ideas for promoting rural entrepreneurship. Some of them seem to relate to the above concerns, challenges, and problems that were perceived by our respondents. For the sake of brevity, some of them were:

- Promote tourism and recreation services
- Encourage more home based service business
- Provide a networking system for sharing of information
- Make greater use of technology, telecommunications, and Ecommerce
- Develop a trained labor pool for high tech businesses
- Provide rural venture capital
- Encourage consumers to stay in the area to buy goods and services
- And develop a comprehensive, systematic, and coordinated program to serve rural entrepreneurs.

In another study by the Mountain Association for Community Economic Development (MACED), it was concluded that rural entrepreneurs wanted a one-stop shop for business information, training, and support services. Many entrepreneurs do understand technology and are not afraid to use it. But, the skills and attitudes of the workforce disillusioned many entrepreneurs

from all types of industries. Interestingly, many small business owners felt abandoned. They believed that state governments were more interested in attracting outside industry than in helping homegrown businesses succeed and prosper. Furthermore, entrepreneurship is frequently equated with retail establishments, which then impede the full opportunities of promoting the entrepreneurial spirit (McDaniel 1997).

## CONCLUSIONS

Our qualitative exploratory study reinforces the strong interest of promoting entrepreneurship and small business growth in rural communities. It appears that community leaders recognize the enthusiasm and vitality that is afforded from the small business sector. Our study also seems to support some of the conceptual and previous research that has been done on encouraging the small business development in rural communities.

Although it is difficult to present a litany of guidelines, suggestions, and recommendations for a very broad and all encompassing subject, it may still be fruitful to outline a few major points that seem to be significant from our own exploratory research and personal experiences. Our main suggestions are:

We must know our market better and understand the needs, motivation, concerns, and expectations of rural entrepreneurs. Segmentation analysis of the entrepreneurial market is needed. Customized services and the one on one marketing concept is a worthy goal. There are often different needs and interests between the microenterprises, mom and pop businesses, and the bigger small businesses who might achieve rapid growth. This accommodation strategy must also match the capabilities and resources of the small community since every rural area will be unable to copy the economic wonders of Silicon Valley.

A better effort must be made on relationship building with current and future users (entrepreneurs) of services and those who provide it in the public sector. Follow-up strategies are sometimes needed to help motivate entrepreneurs or overcome some doubts of the small business owners.

We should utilize existing structures and rural small business forums to improve coordination between different local, state, and federal government authorities.

- A coordinated effort is needed to involve all rural communities within a region to improve the small business development process.
- We must take a strategic perspective on entrepreneurial rural growth. Economic growth will not materialize overnight and community leaders will need patience to achieve satisfactory growth from the small business sector.
- Small communities often have a certain quality of life and unique advantage compared with many urban areas. It is essential to have MANAGED growth in order to avoid growing beyond the town's resources and infrastructure. It is also prudent to decide on the type of small businesses to encourage in the community. Some ventures may pay very low wages and salaries and/or lower the quality of life for the small town in question. If growth is achieved at all costs, it is possible to lose the very strength and advantage of living in that particular small community.
- We must encourage professional development among community leaders, elected officials, economic developers, and chamber members on the subject of new venture creation. Sometimes

there are some myths and misconceptions about the role and scope of entrepreneurs in achieving economic growth.

- Community leaders should consider strategically placed regional incubators with technical help from current structures, such as universities, community colleges, vocational and technical schools as well as existing state government agencies. With distance learning, cyberspace, and advanced technology it is possible to better serve rural communities. Of course, it may take some start-up investment in technology by all levels of government and rural community leaders.
- We must create regional structures that combines many compatible small communities to take advantage of synergistic opportunities for grant writing, political power, and economies of scale. Previously, some competition among small towns within a region may have been beneficial. Yet, it may be prudent to combine forces to serve entrepreneurs in hopes that the entire region will benefit. Perhaps a more critical point is the importance of avoiding turf wars of various agencies and institutions within one small community itself. Competition for grants, personnel, recognition, and empire building can splinter the efforts of one small town or an economic region that is dominated by small towns.
- Community leaders should utilize existing institutions or a new created structure that will help to overcome such concerns as the lack of coordination, marketing problems of existing services, or the other additional challenges and problems mentioned in this paper. (A careful study of a certain community or region would be needed to see if an existing or new organization must be created to provide coordination and one stop shopping services to the entrepreneurs).
- And, everyone must provide the necessary support to encourage a better infrastructure as well as technological investments in smaller communities.

The above guidelines are neither all-inclusive nor all exhaustive. Nevertheless, they may help in some small way to encourage economic development in smaller communities. Frequently, from our experiences the community leaders want to maintain their quality of life, but often feel that they are being left behind in the perks of economic development. That is why they have such high hopes with the potential and exciting contributions from the small business domain. As educators and participants of the Allied Academies National Conference, perhaps we can make additional contributions to this significant subject by doing continuous research in this quintessential area.

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