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Volume 5 **2000**

THE ENTREPRENEURIAL EXECUTIVE

CONTENTS

LETTER FROM THE EDITOR

Welcome to the *Entrepreneurial Executive*. I am confident that this volume continues our practice of bringing you interesting, insightful and useful articles by entrepreneurs and scholars.

The *EE* is an official journal of the Academy of Entrepreneurship®, a non-profit association of scholars and practitioners whose purpose is to advance the knowledge, understanding, and teaching of entrepreneurship throughout the world. It is my objective to expand the role of the *EE*, and to broaden its outreach. We are interested in publishing articles of practical interest to entrepreneurs and entrepreneurial scholars, alike. Consequently, we solicit manuscripts from both groups.

The *Entrepreneurial Executive* is funded by the proceeds of membership dues and conference registration fees at Academy of Entrepreneurship® and Allied Academies meetings. We do not receive funding support from any university or agency. We encourage readers to become members of the Academy and to attend conference meetings in the spring and the fall. Upcoming conferences are announced on the Allied Academies home page: www.alliedacademies.org, as well as information about the organization, its affiliates and its journals. In addition, instructions for submitting manuscripts are displayed on the home page.

I am interested in recruiting Editorial Board members and in soliciting manuscript contributions and conference participation from a broad cross section of people interested in entrepreneurship. If you would like to become a member, contribute a manuscript, come to a conference, or just chat about the *journal*, please feel free to call, fax or e-mail me at any time.

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LETTER FROM THE PUBLISHERS

We are extremely pleased to present Volume 5 of the *EE*. The Academy of Entrepreneurship ® is an affiliate of the Allied Academies, Inc., a non profit association of scholars whose purpose is to encourage and support the advancement and exchange of knowledge, understanding and teaching throughout the world. The *EE* is a principal vehicle for achieving the objectives of the organization. The editorial mission of this journal is to advance the knowledge, understanding, and practice of entrepreneurship throughout the world. To that end, the journal publishes high quality manuscripts, which are of practical value to entrepreneurship researchers and practitioners.

As publishers, we intend to foster a supportive, mentoring effort on the part of the Editor and the referees which will result in encouraging and supporting writers. We welcome different viewpoints because in differences we find learning; in differences we develop understanding; in differences we gain knowledge and in differences we develop the discipline into a more comprehensive, less esoteric, and dynamic metier.

The Editorial Policy, background and history of the organization, and calls for conferences are published on our web site. In addition, we keep the web site updated with the latest activities of the organization. Please visit our site and know that we welcome hearing from you at any time.

JoAnn and Jim Carland
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ENHANCING THE CHANCES FOR SUCCESS: USING MULTIMEDIA FOR EFFECTIVE ENTREPRENEURIAL PRESENTATIONS

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ABSTRACT

Presenting a business plan to others is one of the most important tasks an entrepreneur will undertake and the persuasiveness of the entrepreneur in making such presentations can mean the difference between having a business plan and having a real business. Towards that end, we review the literature on multimedia communication and offer three simple guidelines for using multimedia in entrepreneurial presentations. We augment these points with examples from real business plan presentations. Our intent is to offer practical guidance both to entrepreneurs and to students and teachers of entrepreneurship on how they can more effectively persuade others to support their new ventures.

INTRODUCTION

Capital is the life's blood of new ventures. As such, the task of raising capital is one of the most important an entrepreneur will ever perform and the process of raising capital has become a common component of entrepreneurial curricula. Indeed, to find evidence of the importance given this process by leading business schools, one need look only at the competitions held each year at the universities of Indiana, Georgia, Oregon, Nebraska, Texas, and San Diego State. Each of these regional, national, and international competitions involve student groups vying for the approval of judges many of whom are themselves venture capitalists.

Of course, the winners of these competitions excel as they do not only because of their abilities to conceive and write good plans but also because of their abilities to present those plans in an effective way. And therein lies an important message. Quite often the success or failure of a new venture depends upon the ability of an entrepreneur to effectively communicate his or her ideas so as to obtain the financing necessary to launch the firm. In other words, a good idea combined with a bad presentation may well mean no funding.

With that in mind, we offer this paper on the use of multimedia in presenting business plans. While, to a certain extent, our topic and suggestions generalize to all presentations, we are especially targeting entrepreneurs because entrepreneurs face an especially difficult task. The reason for that is that entrepreneurs must sell something that does not yet exist. In other words, they must convince seasoned and savvy investors to stake money on little more than an idea. In the face of this challenge, entrepreneurs especially should make every effort to utilize those techniques and technologies that can make the delivery of their plans more persuasive.

In developing our suggestions on how to make more effective multimedia presentations, we reviewed the growing literature on multimedia communication. What we found was that while multimedia can enhance clarity and persuasiveness, it can also distract and confuse. Moreover, while most presentations can benefit from incorporating elements of multimedia technology, many go too far and incorporate too much and thereby reduce their overall effectiveness.

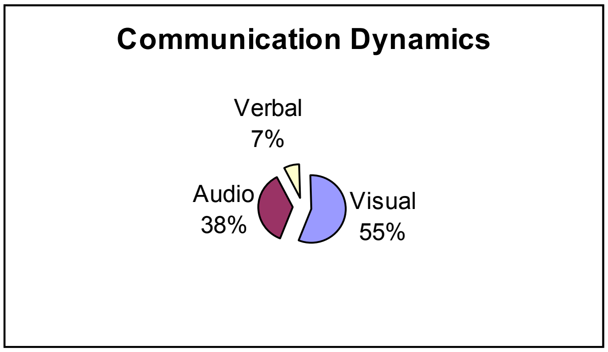
To provide some practical help to entrepreneurs trying to make sense of this confusing array of information, we have condensed and extracted from the research literature three simple principles, which we label ***synergy***, ***harmony***, and ***framing***. When multimedia is used, it should be used in a manner consistent with these principals. When it is not so used the overall effectiveness of the presentation will likely decline. To further illustrate the point, we have also included brief descriptions of business plans presentations by teams of prospective entrepreneurs. These presentations were made by MBA students involved in one or more of the business plan competitions described earlier. All of these plans had undergone rigorous screening by a series of faculty and new venture professionals and had been judged to be acceptable. Thus, a major determining factor in their success was the effectiveness of their presentation.

MAKING EFFECTIVE PRESENTATIONS

An adept presentation begins by catching the attention of the audience. Multimedia presentations are a great tool for capturing interest because they engage all of the listener's senses. Research shows that spoken words alone account for only 7 percent of the total impact of interpersonal encounters (see Figure 1). Auditory cues like inflection and tone are more crucial; they account for 38% of the impact. However, the most significant are the visual aspects of body language (such as gestures and facial expressions). Body language provides 55% of the total communication impact (Szuprowicz, 1997). Thus, just as McLuhan states "the medium is the message" (1994: 13). Of course, what is meant by that is that the way information is presented is as important as the information itself. Or, stated differently, the medium has the power to reinforce, distort, reduce, or even neutralize the actual content of the message.

Multimedia allows the integration of individual communication vehicles like speech, text, images, and sound. This integration enhances the overall efficiency of the information transfer. Moreover, the interaction of these vehicles can produce beneficial psychological responses in the listener like heightened involvement and attention, emotional stimulation, and increased referent recognition (Hoogeveen, 1997). Thus, multimedia presentations can be a great tool for expressing persuasive ideas and business people have been quick to recognize their potential benefits. In fact, a recent study shows that 85% of business presentations currently utilize some multimedia technology (Szuprowicz, 1997).

Figure 1



But is all multimedia good? Is this truly one of those cases where, if one is good then two is better? The research on the subject suggests not. Indeed, the evidence seems to be that the incorrect or over use of multimedia can produce negative effects, like over stimulation, distraction, and fatigue (Heller, 1990). Such effects reduce persuasiveness and reduce the chances for success. Thus, entrepreneurs must take care to use multimedia only to the extent that it benefits them. To more effectively do that, we suggest that entrepreneurs follows three simple yet powerful principles.

SYNERGY

By definition, multimedia involves different types of delivery media used in combination. Text, graphics, animation, and audio are merged into a single application through the use of multimedia technology. While they are particularly effective when used in combination, each of these media has its own unique attributes. For example, speech is personal; music can be emotional; text can express facts and details.

Different combinations of media can be used to evoke different reactions and it is the effective use of these combinations that we have labeled ***synergy***. The basis for our emphasis on synergy is the fact that real life is a dynamic experience so information that is composed of inert text and data displays does not intermesh well with human experience. Combinations of different modes of communication bring a dynamic factor to presentations, making them seem more interesting and natural. For instance, Gibson (1966) contends that human senses are made to manage the complex flow of information in our natural environments. Our audio and visual systems are designed to handle continually changing information rather than static pictures and sounds (Marolim, 1991). In other words we are able to recognize that many things are happening simultaneously and so are used to receiving information in that way. For example, a walk in the park encompasses the colors of the sky and grass, the scent of the flowers, the activity and sounds of the other patrons, as well as the messages conveyed by signs such as "Ice Cream," and "don't walk."

Our minds are designed and conditioned to encounter and process complex information simultaneously. In fact, in the absence of multiple stimuli, there is a tendency towards boredom. To confirm this one need only recall the NFL's experiment with the "silent broadcast" of football games, which included live video but no corresponding analysis or commentary. The format was a disaster and was quickly abandoned.

Our perceptual systems are marked by a tendency towards the receipt and integration of information through the different senses (Gibson, 1966, 1979). Fast food companies capitalize on this by displaying a picture of a hamburger on a television screen evoking the senses of sight, smell, and taste while, at the same time, providing other, more practical information in the forms of spoken and printed text. The synergistic effect of the combined media is a much more powerful inducement than any one of the individual media alone.

Research also shows that we humans learn better from multimedia information flows (Schade, 1993). Our brains are made up of two roughly independent problem-solving systems. Multimedia offers the opportunity to address both the auditory and visual receptors (Faber, Meiers, Ruschim, & Severferth, 1991). Again, because of the synergy gained by combining diverse media in a single message, multimedia is more effective than single media. In addition, the use of multimedia can take advantage of free sensory channels, thereby reducing boredom. For example, an audience that is reading text can also listen to music or other sounds which might increase the effectiveness of the overall communication (Hoogeveen, 1997). Likewise, pictures combined with dialogue can effectively integrate both sight and hearing.

Remember that synergy is the use of multiple delivery media so as to increases the audience's engagement to the message. Is the audience growing bored or are they intellectually and emotionally connected to the presentation? Are they actually getting the message that you intend to send? Better persuasion and learning will occur when they are. Thus, when designing a presentation, look for opportunities to engage multiple senses simultaneously. Use background music or other sound effects; provide outlines or some other visual stimulation to accompany spoken text. However, be careful not to distract the audience from the substance of the message by overwhelming them with an unmanageable number of sights and sounds.

Of course, just as important as the use of multiple media is the need for those media to agree. In the example above, fast food companies would do themselves little good if they described hamburgers while showing pictures of tires. In other words, in addition to employing multiple media vehicles, the message itself must be consistent, which is the root of our second principal, harmony.

HARMONY

Harmony focuses on the content of the information and the need to make certain that all media converge on a single message. We base this principal upon the recognized value of redundancy in communication. In the case of multimedia, harmony means making sure that all modes of communication reinforce and communicate the same idea.

A wide body of research explains how harmony improves the effective transfer of information. For instance, research shows that the more a person is exposed to an item, the more accepting they are of it and attached they are to it (Pratkins, Anthony, Aronson, & Elliot, 1992). Indeed, this is true regardless of what the item actually is. In some studies on this subject researchers have used nonsense words, Chinese characters, and photos of students and still found that attraction to the items increased with the number of exposures. That repetition builds familiarity is a well-known and often employed principal in advertising. For example, what soap is 99.44% pure? Who runs the “tightest ship in the shipping business?” The evidence clearly shows that repetition is linked to product familiarity and increased sales.

The redundant use of colors also has potential benefits. Redundancy helps in the acquisition and processing of data (Marmolin, 1991). There is a large body of research suggesting that colors can reinforce your message (Birren, 1997). Consultants such as The Nippon Color & Design Research Institute regularly advise corporations on the perceptions of color. They have researched over 1,000 color combinations and matched them to key images and words. Thus, the very color of your text or illustration can reinforce your message (Kobayashi, 1990).

Likewise, the redundant use of sound seems to have the same positive effects as the redundant use of color (Marmolin, 1991). A study by Brady & Henderson (1995) regarding voice-overs indicated that over 75% of their subjects believed that audio sounds aided comprehension, helped them link new content to previous knowledge and generate new concepts. That sound can accentuate the effects of visual stimuli is another principal often employed in the advertising and entertainment industries. Imagine your favorite film without its soundtrack; even great stories rely background music to move the audiences' emotions. Or try to imagine your favorite comedy series without the occasional tracks of recorded laughter. Auditory cues that reinforce the visual message are a very important means of informing the audience. Sound can also add to the legitimacy of the message, as in the use of background noise during a "man on the street" interview. It is important to remember though that the key to getting these benefits is harmony between the different media.

When using dialogue or monologue, a visual display of the text can increase harmony. The audience both hears the words and can see them. It also increases speech understandability as the audience can follow along and read words left out. In addition, visual display can increase the understandability of the message. Research has shown that when a speaker's face is visible the audience picks up facial expressions and follows lip movements, enhancing intelligibility, understanding, and retention (Hapeshi & Jones, 1992). Indeed, when compared to presentations including both spoken and video stimuli, solely narrative presentations produce increased distortion and inaccurate recall (Hayes, Kelly, & Mandel, 1986).

However, a video presentation where the audio and video are not in synch reduces effectiveness. For example if you are showing a video of someone driving to a grocery store while at same describing the sophisticated electronic ordering systems used by that store, you will likely create confusion and reduce the effectiveness of your message.

The need for harmony also translates to other aspects of presentations. For example, studies show that reaction times are significantly slower in processing information that does not agree with our cognitive map. For example, the word "green" written in blue text would create considerable confusion. Likewise, frequent changes in background colors, text fonts, visual effects or background audio will create confusion unless they correspond to some change in the substantive matter of the presentation.

Harmony is important because humans process information by simplifying it and comparing it to that which we already know. The consistent use of multimedia can help us to understand a message and locate its content in our own framework of cognitive schema. To the extent that audiences can better frame and recognize a message, communication is made more efficient. Thus, the final principle focuses on the importance of framing and how multimedia can facilitate it.

FRAMING

The field of psycholinguistics examines how signs and symbols are assigned meanings. Meanings are part of what are commonly referred to as a person's frame of reference. A person's frame of reference includes prior-learned meanings, life experiences, values and attitudes, current needs, goals, and expectations. When we witness events or phenomena we interpret the stimulus and attach a meaning to it. Based on that meaning, we issue some response. More importantly though, in the future that same meaning will likely be assigned to all similar stimuli and again lead to a similar reaction as before (Hanneman, 1975).

Using reference models to frame a message is a common practice in marketing. Many advertisements make use of elementary reference pictures and sounds to improve their effectiveness (Pratkins, et al., 1992). Consider the Marlboro man, a familiar image in American advertising. How does this imagine of a cowboy communicate to us in this day when there are few such individuals? To the extent that we associate cowboys with toughness and independence, it shows that smoking is for rugged, self-confident people. As children, many of us associated such behavior with positive meanings, thus, we now associate cowboy-like behavior (like smoking) positively. It is common to see reference models used in other advertisements as well. Beautiful women, expensive automobiles, and first-class travel are all used in advertisements to trigger positive frames of reference.

It is easy to imagine how positive framing could work to one's advantage during a presentation. Take for example a presentation on a product for dogs. The presenter could take advantage of a common and positive referent by using the image of puppies. Likewise, consider a presentation on the benefits of new drug. Pictures of the surgery that the drug would make obsolete could conjure images of unnecessary pain and suffering, again working to the advantage of the presenter.

Framing can produce both positive and negative images; both of which can either help or hurt the presentation. Images of the painful surgery that a drug would eliminate would create a negative yet beneficial frame of reference. Similarly, images of an active and healthy individual following the drug treatment would create a positive and beneficial frame of reference. On the other hand, imagines of the injections needed to deliver the drug would create a negative and detrimental frame of reference, while imagines of an outpatient clinic where the alternative surgical procedure could be performed quickly and easily, would create a positive and detrimental frame of reference.

The need to carefully choose how to frame a message is underscored by research showing that if reference pictures are added to text, readers grasp a story nearly 75% quicker than a story containing just text alone (Schade, 1993). Multimedia helps the audience frame the message more quickly. As such, it is especially important that the presenter create a frame of reference that serves his or her purposes.

Effective wording can also evoke frames of reference. The manner in which an object is described and the way a course of action is presented can channel the listener's thoughts and responses. Through the use of labels, an object can be defined in the way the presenter wants (Pratkins et al., 1992). For example, consider the differences between describing something as being either "90% fat-free" or "10% fat." Obviously, people will respond more favorably to the former than the latter, even though they express the same idea. Grocery stores describe frozen foods as "fresh frozen." The word fresh obscures the meaning that we often associate with food that has been frozen. Wording a product's attributes in a manner that states that nothing is stronger, faster, or more effective leads the consumer to believe that the product is better, when in fact, it could simply be identical to all the others.

Often the intent is simply to evoke a general frame of reference without providing any specific definitions or meanings. These sorts of slogans are call glittering generalities (Jowett & O'Donell, 1986). Consider the political examples of, "a kinder, gentler America", "freedom fighters" and "honorable peace." Obviously kindness, gentleness, freedom, and peace are good words, however, few would agree as to there exact meaning in these examples.

Prompting an audience to refer to themselves or to use their imagination is a very successful technique of self-generated persuasion. Getting an audience to imagine adopting a course of action is one of the most effective ways of persuading. A series of experiments illustrated the effectiveness of self-imagining in selling consumer products. When consumers were asked to imagine the benefits of owning a product instead of merely being informed of its benefits, sales increased nearly 30%. The self generated persuasion tactic fits American values of participation and individualism, and these values provide easily evoked and powerful frames of reference to which a presenter should focus (Pratkins et al., 1992).

One of the greatest benefits of multimedia is the ease of using pictures and graphical representations (Schwier & Misanchuk, 1993). When using pictures and graphs it is important to label each picture to help reinforce or direct the message. Labels can evoke frames of reference (Hanneman, 1975). Indeed, in an effort to avoid this type of evocation some abstract artists label their paintings with numbers so a not to bias the audience's response as they would had they used a name. Consider the presentation of the drug mentioned earlier. Should the picture of the surgery that the drug will replace be labeled "surgery" or "expensive and painful surgery?" Clearly the use of multimedia can and should be used to aid the presenter in creating the framed response that best serves his or her interests.

EFFECTIVE ENTREPRENEURIAL PRESENTATIONS

Few entrepreneurs have the resources to go it alone. Thus, one of the most important tasks an entrepreneur will ever perform is the presentation of his or her business plan to prospective backers. It is essential that the entrepreneur be able to persuade these individuals to join the new venture. While some might commit out of a sense of personal obligation or affinity, the vast majority will be seeking profit. Many will be lenders, investors, and business owners themselves. Thus, they are likely to be intelligent and knowledgeable. It is also likely that their involvement with the entrepreneur is just one of many investments that they currently hold or are considering. Knowing this should help the entrepreneur target his or her message and the use of multimedia to communicate it.

Entrepreneurs should begin by focusing on the message they wish to send. Given this audience and the novelty of their product or service, that message needs to focus on ***legitimacy*** (Stinchcombe, 1965) and ***opportunity*** (Timmons, 1986). Assuming the business plan is sound and the opportunity real, how can multimedia be used to more effectively communicate legitimacy and opportunity to this audience? We propose by following our three principles.

To begin, take advantage of every opportunity for synergy. Synergy is likely to be important because, in this day and age, the audience will expect to be entertained. As mentioned earlier, approximately 85% of all business presentations employ elements of multimedia. Entrepreneurs should prepare to face a sophisticated audience who will expect a sophisticated presentation. Moreover, many of these investors will have seen presentations by other entrepreneurs and the comparisons they will make are unavoidable. Thus, entrepreneurs who want to make a positive impression should strive to engage their audience in every manner possible.

Also, as busy people, the members of this audience are prone to grow bored with any single delivery vehicle, regardless of how good it may be. The hectic pace of business conditions such individuals to deal with complex communication flows. As such, in the absence of complex stimuli, they are particularly likely to grow bored and cease to pay attention. Thus, when entrepreneurs employ multiple media simultaneously it enhances their chances for success by communicating a high level of sophistication and legitimacy to the audience. It also helps to engage the audience so that the seeds of opportunity can be more effectively planted.

To plant those seeds entrepreneurs must take special care and use multimedia to reinforce their message. Everything that the prospective investor hears, sees, or reads should buttress the core message that the entrepreneur represents a legitimate and significant profit opportunity. Towards that end, the entrepreneur should build some harmonic signals into each of his or her media. One simple example of this would be to include the company's name and logo on all handouts and slides. Such redundant reinforcement will serve to increase the familiarity of an otherwise unfamiliar company in the mind of the audience. Other simple suggestions would include the use of a common and conservative color, font, and layout for all visual material. Again, this communicates legitimacy while not distracting the audience from the substance of the entrepreneur's message.

With regard to the substance of the message, the entrepreneur should constantly reinforce such things as the acceptance of the product or service and the expectation of profit. Multimedia can provide ample opportunity to send such messages. For example, testimonials can provide powerful evidence of product acceptance and entrepreneurs would do well to include them at multiple junctures. Marketing trials, technical tests, or press evaluations, can all provide opportunities to report actual, first-hand evidence of the product's acceptance by people who are familiar with it. Thus, rather than simply saying that "everyone who has seen it likes it," it is better to include actual quotes from actual people. Note too the potential to build synergy and to develop some positive framing on this issue. Rather than just report quotes in a text fashion, try including audio or audio-visual taped testimonials from people who are recognized as expert users. Such direct evidence is hard to refute and will connect emotionally with the audience, while also stimulating multiple senses.

Numbers are also important. Investors typically want profit so it is incumbent on the entrepreneur to convince the audience that profit will be forthcoming. However, simply projecting numerical values onto a screen fails to capture the full benefits that multimedia can offer. Instead, we recommend supplementing actual financial data with graphics that represent the expected return in relation to some baseline. Bar charts, for instance, can communicate strongly the variation in return across a variety of investments. In addition to producing some synergy for the audience, the use of such charts can also serve to frame the information by giving the audience a baseline for comparison. Of course, a bar chart illustrating expected returns is but one possibility. Other financial and numerical information such as figures on sales growth, expected market penetration, levels of additional investment, and learning curve effects would be just as amenable to this sort of illustration. Essentially, charts of some type should be used to supplement almost all ratio data designed to both reinforce the spoken or written text as well as frame the information in a positive light.

Finally, with regard to the issue of framing, it is important to remember that analogic (life-like) representations are typically better than digital ones. The reason for this is that humans frame information in terms and symbols that are familiar to them; in other words, the more iconic and life-like the information, the better. In practical terms, this means that real pictures are better than clip-art; wave file sounds are better than MIDI sounds; and testimonials are better than raw survey data. The power of real, yet anecdotal, evidence is illustrated best by the use of individual testimonials in political advertisements and lobbying. A real person reporting a real experience creates a far more powerful impact on the audience than cold and impersonal quantitative data. The beauty of multimedia is that it allows the entrepreneur to seamlessly incorporate both.

EXAMPLES FROM REAL LIFE

Finally, to appreciate better how even subtle differences in mechanics can change the perception of the whole presentation, consider examples from presentations done by graduate business students at a large university with a well respect entrepreneurship program. All were of actual proposed new ventures and were delivered in a face-to-face presentations by teams of MBAs using Microsoft PowerPoint in combination with a video/data projector. For the purpose of this discussion and to protect the identity of the groups, the substantive specifics of the presentations will be omitted. The first example is of a team that choose a plain dark red background for their slides. The text color was white. Each bullet point in the presentation was animated (i.e. appeared when cued). As each new bullet was cued the previous one would fade to black. This is a case where too much animation may have undermined the synergy the group was trying to create. The problem with this team's approach was that it did not allow the audience to review the material and assumes they are reading at the same pace as the presentation is flowing. Of course, this had the effect of keeping the audience (in this case, a group of judges) off balance. They could not easily review the points nor could they focus easily on their progression because of the multiple color changes.

This attempt at synergy was not as effective as it could have been because it appeared to overwork one set of stimuli while neglecting the others. An approach more consistent with the findings of the research literature would have been for this team to provide handouts for the audience to follow. Alternatively, the team could have presented the whole slide in total and then simply talked about the points in sequence. In either case, the audience could have then focused on the speaker and used the supplemental visual stimuli as needed for additional information.

Another common problem that we observed with several of the teams was that their slide transitions and text animations were not consistent. When new slides or text boxes were cued they would come from the top, the left, or the right in random fashion. While this sort of variation creates some interesting visual effects, it can also distract the audience from the purpose and point of the presentation. In the cases we observed, information would appear by sliding in from the right or left, appearing letter by letter, falling from the top, and every other permutation imaginable. What this meant though was that the audience had to search anew for the relevant information each time a change was made. Again, this is more stimulation than is necessary on a single media. These teams would have done well to remember that, for entrepreneurs, the point of the presentation is to get funding, not to impress the audience with visual effects.

Another team made heavy use of clip art graphics. However, many of their representations would have been better expressed with photos. For example, in describing the application of their product, they used graphics of a computer and globe, both images are familiar to those who have visited Power Point's clip art gallery. Such generic familiarity likely diluted the message that the team was trying to send. Again, this group would have done well to remember the importance of framing issues in the most familiar symbols possible. An audience as sophisticated and knowledgeable as this will likely frame such simplistic graphic representations as being merely "old hat." To effectively frame the message, entrepreneurs should look to employ images that are real, personal, and that are as close as possible to the things being represented. In this case, real pictures of the globe and of a computer could be downloaded or scanned and incorporated easily into the presentation.

Several teams made use of sound, although rarely was it used as well as it could have been. Remember that there is a tendency to over utilize some stimuli while neglecting others. Such mistakes violate the principle of synergy. In one case, audio clips were used to show customer acceptance of the product. Along with each clip, a slide was shown consisting of a photo of and biographical information on the person speaking. The text was not displayed, which reduced the ability of the audience to understand the speech. This use of sound failed to take full advantage of its potential. For instance, all of the quotes were long and clearly scripted. Moreover, the photos were still pictures. The combination of still photos and scripted text was both boring and unconvincing. A better approach, which would have taken no greater effort, would have been to use live audio-visual monologue combined with handouts of the text. Such an approach would have capitalized better on synergy by being more interactive and engaging and on framing by being more life-like and believable.

Not all of our observations were negative. Some teams integrated multimedia very effectively. For instance, one team began by passing outs text copies of their slides to the audience and so taking that opportunity to meet each judge personally. Of course this is not always possible when presenting to large groups. Entrepreneurs who are seeking to raise funds, however, are likely to target small and specific groups and so should take advantage of that intimacy by trying to establish some degree of personal rapport. This group used slides with white text printed on a largely black background with the company logo in the bottom corner. As discussed, such redundancy can build familiarity and attraction. The neutral and unobtrusive color scheme combined with the consistent transitions helped to focus attention on the substance of the presentation. Moreover, to prevent boredom and to cue the audience to changes, each transition was accompanied by the faint sound of a breeze. Thus, this group used multimedia synergy to engage multiple senses while remaining consistent and redundant in the media where the actual substance of the presentation was being communicated.

Another group made heavy use of photographs. Nearly every slide with open space included an actual analog picture framing the issue being communicated with familiar reference models. For example, one picture showed a dog and baby looking together at a computer. Pictures such as these evoke strong emotional referents in the audience. This team also provided an actual audio/video tape of their product's inventor. This highly legitimate source was very effective in persuading the audience. It is worth remembering that simply presenting the group with the text of the inventor's endorsement would have been much less powerful. Again, this is evidence of the interaction effect that can occur when good substance and multimedia are combined effectively.

The team further capitalized on this positive framing by referring to the inventor over and over in further discussion of their product and new venture. This redundancy facilitated better acceptance by the audience because it employed material that the audience had already seen and accepted. Indeed, the team even used short sound clips of the inventor at times to further reinforce parts of the message throughout the presentation. Finally, the team employed an audio quote from a well-recognized personality speaking of the need for a product such as that being presented.

CONCLUSION

As mentioned at the beginning, one of the most important activities an entrepreneur will ever undertake is the presentation of his or her business plan to prospective financial backers. Yet, it is also likely one of the activities that entrepreneurs do with the least amount of forethought and preparation. After all, a quality idea should sell itself, right? Clearly history shows that to not always be the case. Thus, entrepreneurs should give considerable time and attention to the mechanics of how they present their plans ideas to others. Moreover, those who teach entrepreneurship would do well to emphasize the importance of good presentation skills and the teaching of effective presentation mechanics.

The pool of venture capital financing is large and growing. Indeed, since 1995 close to $30 billion dollars has been invested in entrepreneurial new ventures (*Business Week*, 1998). Of course, along with that level of opportunity so has risen the number of entrepreneurs pursuing investment capital. Thus, the need to stand out and gain competitive advantage in every conceivable way and the effective use of multimedia can be one such source of competitive advantage. We do not suggest that entrepreneurs only "sell the sizzle." Clearly the most important determinant of new venture success is a good product and a well-conceived plan. Thus, when faced with a variety of good products and plans investors can be swayed by the quality of the presentation. To the extent that use of multimedia can make them more persuasive, entrepreneurs will be well served by their multimedia skills.

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MERGER MANIA: LEGAL AND STRATEGIC RESPONSE OPTIONS FOR SMALL BUSINESS

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ABSTRACT

Merger mania is once again gripping our nation. The merger trend is slated to continue because of a combination of emerging information technologies, deregulation, privatization, and lowered trade barriers. The implication for small business is significant: when competitors consolidate, the small business is more vulnerable to the strong arm tactics available to these larger competitors. Some of those tactics are illegal, but large competitors might violate the law, either willfully or unknowingly. It is the responsibility of small business to be vigilant in knowing its rights in this area and enforcing them.

This paper will present the legal and strategic response options of a small business when faced with a merger that will create a new dominant firm. The history and rules of merger law will be described; legal response options, then strategic response options will be discussed; finally a recent case in which a small business was confronted by this problem will be reported and used to illustrate various response options.

INTRODUCTION

Imagine that you are a small business owner. After years of hard work you have achieved a market share of 20% of your niche market. One day, as you read your monthly trade journal, you learn that your two largest competitors have announced a merger. The new firm will become dominant in the market, with about 70% of sales. Past aggressive business tactics of the merging firms raises your concern that the newly dominant firm will throw its weight around. Will you be able to compete effectively in the new environment? Is the merger legal? What can you do to challenge its legality or respond strategically to this new threat? This paper will address these concerns.

LEGAL HISTORY

As long ago as 1911, President William Howard Taft recognized that monopolies and concentrated industries are a threat not only to the public, but to small business as well (Schnitzer, 1978). The antitrust laws were enacted to counter that threat. The first federal antitrust statute was the Sherman Act of 1890. It made it a federal crime for a firm to either monopolize an industry or to act in concert with other firms to restrain trade. However, federal prosecutors found it difficult to enforce this act, and in 1914 Congress attempted to strengthen enforcement by enacting the Clayton Act. This act made certain specific actions, like price fixing, automatic violations of the Sherman Act. It also make it illegal for firms to merge if there was a reasonable likelihood that the merger would result in less competition. This was an important change, because the Clayton Act's anti-merger provision did not require proof of actual harm, only proof that harm "may" result. This lighter burden of proof made it easier for federal regulators to prevent a proposed merger, compared with attempting to break up an existing monopoly (Cheeseman, 1998).

From the point of view of small business, however, there has always been one major problem: while the antitrust laws authorize the federal government to act, they do not require it to act. Enforcement is discretionary. It is a matter of policy, ultimately set by the president. And different presidents have had varying attitudes towards antitrust enforcement. A president who is sensitive to the campaign contributions of big business, and who wishes to curry favor with Wall Street, will not be a vigorous enforcer of antitrust laws. A small business owner does however have an option aside from attempting to persuade regulators to do their duty: it can bring a private lawsuit to block a merger or it can sue for damages sustained by anti-competitive practices (Dunfee & Gibson, 1985). However, these lawsuits are expensive. They require specialized legal talent and expensive expert witness testimony. They involve difficult application of imprecise statutory language, so appeals are likely. By the time the appeal process is complete years may have passed, and the small business plaintiff may have ceased to exist.

WHEN ARE MERGERS ILLEGAL?

A merger will be declared illegal when a court determines that the merged firm may have a degree of market power in a certain product market. Market power is inferred from a high concentration of market share. Before market share can be assessed however it is first necessary to determine what the "relevant product market" is (Gellhorn, 1981). For example, in the famous DuPont cellophane case (1956), the court was required to determine whether the relevant product was cellophane or all flexible package wrappers, including tinfoil and paper wrappers. Dupont controlled 75% of the cellophane market, but only 20% of the larger flexible package wrapper market. The court decided that the relevant product market in that case was cellophane, because the other package wrappers were not acceptable substitutes in many applications.

Once the relevant product market has been determined, the court will turn its attention to the "relevant geographic market". Consider for example towns A and B that are 5 miles apart, each with ten movie theatres. If one firm owns nine theatres is town A, and none in town B, then that firm has market share of 90% if the relevant geographic market is town A only. But if the relevant geographic market is both towns, that same firm has market share of only 45%. The courts will decide the size of the relevant geographic market based on the distance that consumers are willing to travel to obtain the product. In this example, most consumers are willing to drive 5 miles to see a movie, so the relevant geographic market is both towns.

After determining the relevant product market and the relevant geographic market, the court will determine the market share of the merged firm. If the number is high, market power will be inferred and the merger will be blocked by the court. How high is high? The Antitrust Division and FTC have issued Guidelines that state that a market share of 35% or more will imply market power, in many cases (U.S.Dept. of Justice and FTC, 1998).

LEGAL RESPONSE OPTIONS FOR SMALL BUSINESS

Small business has six legal response options when threatened by market dominance of a newly merged firm. These are: (A) hire an attorney; (B) persuade the government to block the merger; (C) threaten to sue; (D) bring a multiple party lawsuit against the offender; (E) bring a private lawsuit against the offender; (F) sell out to the newly dominant firm.

STRATEGIC MANAGEMENT RESPONSE OPTIONS FOR SMALL BUSINESS

There is considerable literature on the subject of strategies for firms (large and small) which are suddenly in a weakened competitive position. However, studies (Chen & Hambrick, 1995) have shown that low market share firms can be as effective as their high share competitors. The key is to develop and quickly implement a package of strategies and tactics without injuring long term performance (Chen & Hambrick, 1995).

When consolidations occur in heretofore fragmented markets (such as the Whitewater Kayak example), the surviving firms must quickly employ both short and long-term initiatives in order to minimize the negative effect consolidation may have on their competitive position. This section of the paper builds upon the work of four leading authors of strategy, Thompson and Strickland (1998) and Hill and Jones (1998).

Depending on the nature of the market (industry segment), responses can be categorized into three groups: (1) Becoming bigger yourself, (2) Creative counter-punching, and (3) Attacking rather than becoming defensive.

Becoming A Bigger Player

This strategy can be realized by (1) merging with one or more surviving firms, (2) changing current corporate strategy and increasing size by creating a chain store organization, (3) growing by converting the firm to a franchise operation and selling franchises throughout the marketing region, and (4) developing strategic alliances for supplying existing chains and/or franchises.

These "bigger player" strategies attempt to replicate what the 'sudden consolidators' move to create - a new, large competitor capable of exploiting all the advantages of size: market penetration, national brand image, and economies of scale throughout the value chain such as in advertising, marketing, production, and purchasing.

Creative Counter Punching

This strategy is focused upon determining and implementing several specific activities each designed to focus on competitors' weaknesses and/or increase profitability and responsiveness of the firm. Counter punching can apply to both immediate (i.e., quickly) responses or longer-term efforts.

Attacking rather than Becoming Defensive

Quick Responses (Thompson & Strickland, 1998.): These responses are designed to demonstrate to the consolidated competitor that the small firms are not conceding market share. These responses are often most successful when implemented in a low profile manner (Chen & Hambrick, 1995). Implementation can be largely underway before the tactic becomes visible to the larger competitor:

- Begin avoiding suppliers that also serve the consolidated firms
- Cultivate your valued suppliers and attempt to be a major purchaser of their products
- Induce differentiation
- Lengthening warranty coverage
- Reducing delivery time to customers
- Offer free or low cost training to the customers on the use of the firm's products
- Create and implement simultaneous initiatives in a variety of areas such as:
  * Price cuts
  * Increased advertising
  * Free samples
  * Rotating specials on specific items in the product line
  * Aggressive rebate programs

Longer Term Responses (Thompson & Strickland, 1998; Hill & Jones, 1998) - Longer-term approaches are designed to attain or retain influence on the competitive nature of the industry or market segment. These responses help define the competitive forces and often can lead to paradigm shifts that greatly reduce the competitive advantages enjoyed by a consolidated firm:

- Develop and protect proprietary competencies
- Develop product design processes
- Increase production technologies and know-how
- Optimize the mix of value chain competencies - knowing how much money to be allocated to each element and what level of resulting competencies to attain
- Develop and sign exclusive agreements with dealers and distributors (this will help block inroads by the newly consolidated competitor)
- Develop and maintain a 'war chest' of cash and marketable securities whose liquidity and interest income can be used to ride out price wars and other strategies of larger competitors. Note: Find and work with a bank who has expertise in cash management strategies for small businesses.
- Maneuver around the strengths and product-market penetration of the larger competitor. Find niches (product, geographic regions, etc.) and areas of differentiation (special sales and service activities, customized products, etc.) not easily copied by the larger firm.
- Identify weak-loyalty customers of the consolidated firm and target them for special advertising and marketing
- Attempt sudden bursts of intense promotional activity to attract back customers. Note: the timing is crucial when using this strategy - try random timing, but do not go head to head with national campaigns financed by the larger newly consolidated firm.

Final Comment on Strategy Options: All strategies and tactics require resource commitments. Small business owners must (1) find and use competent financial services advisors in order to maintain a healthy capital structure (mixture of debt and equity in the balance sheet), (2) maintain adequate liquidity through effective cash management, and (3) develop realistic seasonal borrowing and lines of credit with a bank that understands the firm's industry. With the advent of both national and international financial institutions and systems, adequate short and long term financing of operations and growth is sufficiently available that difficulties in financing for small business is no longer a strategic disadvantage.

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SOURCES OF ASSISTANCE TO ENTREPRENEURS IN DEVELOPING COMPETITIVE ADVANTAGE

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ABSTRACT

Entrepreneurs face some common difficulties in finding financing and sources of professional assistance to help with getting established, identifying new markets, bringing new products to market, changing structure to meet economic and societal demands, and identifying and assessing new technologies and markets which may be available. This paper identifies several programs which can be of significant benefit to innovative businesses if they make the effort to pursue the programs available. The information should be useful to academicians and consultants as well as entrepreneurs.

INTRODUCTION

Entrepreneurs have encountered intense competition with the coming into place of the global marketplace and the accelerated use of modern technology. Not only must they defend their domestic markets, but must consider competing in overseas markets. Developing new products and improving current operations are hampered by the difficulty in obtaining financing for new efforts and a significant lack of information on the part of entrepreneurs about programs established by private enterprise, and government and quasi-government agencies. These programs can aid significantly in the identification of funding sources and assistance in identifying new markets and evaluating and employing new technologies. This paper provides a brief summary of some programs offered in the United States which the entrepreneur should consider when seeking financing, exploring new markets, product development, process improvement and technology employment. Some of the programs are relatively new and some have been in place for years. The information provided should prove useful to academicians and consultants as well as to entrepreneurs.

AREAS OF CONCERN

Entrepreneurs of both established and new firms have faced increasing challenges over the past few years from the changing of industry structures and by the restructuring of larger firms. Changes in banking laws, for example, have resulted in a move toward regional banks which are poised to take advantage of newly enacted interstate banking laws. The regional banks were created through mergers and acquisitions among existing banks. In the retailing areas, smaller operations are feeling severe competition from the growth of giant discounters such as Wal-mart. Also, some wholesalers have been displaced by the giant discounters who deal directly with manufacturers.

Insofar as the manufacturing sector is concerned, there is significant restructuring as larger enterprises, especially in the automobile manufacturing industry move toward reducing the number of suppliers with which they deal. This is causing structural changes via mergers and acquisitions among the suppliers. The current low unemployment rate in the U.S. means that there is a shortage of skilled workers (Tight market..., 2000).

SOME PROGRAMS AVAILABLE TO U. S. FIRMS

The standard and well known U.S. programs including Service Corps of Retired Executives(SCORE), Small Business Institutes(SBIs), and Small Business Development Centers(SBDCs) will not be covered. The emphasis here is on some of the programs which do not seem to be common knowledge in the area of entrepreneurial practice because of their specialized nature or their recency. In fact, some of the seemingly specialized programs have broad applications. This is especially true in the areas of productivity improvement and programs such as the Small Business Innovation Research Program described below.

The Small Business Innovation Research Program (SBIR)

The SBIR came in to existence in 1982 with the enactment of the Small Business Innovation Development Act (NSF, 1995). The Act required that Federal agencies with research and research and development (R&R&D) budgets in excess of $100 million establish SBIR Programs. The funding of the SBIR Program is derived from fixed percentages of a participant agency's R&R&D budget. There are typically ten to fifteen Federal agencies participating in the SBIR Program. Examples are:

- Department of Agriculture
- Department of Commerce
- Department of Defense
- Department of Education
- Department of Energy
- Department of Health & Human Services
- Department of Transportation
- Environmental Protection Agency
- National Aeronautics & Space Administration
- National Science Foundation
- Nuclear Regulatory Commission

Many opportunities exist through the programs carried out by the agencies named above. Consulting opportunities are available in the preparation of proposals and conducting research. Usually, the process involves the preparation of a proposal and supporting documentation for consideration by the appropriate agency. The programs consist of several phases. For example,

Phase I:	Feasibility Research, this typically involves a time frame of six months;
Phase II:	Principal Research Project, successful Phase I programs compete in this area and may be funded for up to 2 years;
Phase III:	Development, this phase is the development phase in which the small firm pursues commercial objectives from the research efforts carried out in Phases I and II. Normally funding is expected to come from private sources in this phase.

Examples of some recent areas of interest are:

- ♦ Department of Transportation
  -FAA: Passenger/Baggage Tracking; Glass Bottle Contents Verification System, explosives detection systems
  -Federal Highway Commission: Passive Roadway Edgeline Marker; Overhead Infrared Vehicle Detector.
  -National Highway Traffic Safety Administration: Develop the Software and Specifications for a Lap-Top Computer Aided Accident Data Collection and Transmission System.
  -Urban Mass Transportation Administration: Entrepreneurial and Small Business Participation in Transit.

- National Aeronautics and Space Administration: Aerodynamics and Acoustics; Teleoperators and Robotics.
- National Science Foundation: Twenty-five subjects ranging from Astronomical Sciences and Chemistry to Design, Manufacturing and Computer Integrated Engineering were listed in this announcement.
- Department of Agriculture: Aquaculture; Rural and Community Development.

The regional Small Business Administration offices can provide interested parties with a pamphlet entitled "Proposal Preparation For Small Business Innovation Research." (NSF, 1999).

U.S. and Foreign Commercial Service(US&FCS), Department of Commerce

The US&FCS has services which can help U.S. companies build their exporting businesses (U.S. and Foreign..., 1991). There are 68 district and branch offices in the United States and the US&FCS is represented at embassies and consulates in 67 countries. The US&FCS is present in 22 European countries, including all the EC member states except Luxembourg. The US&FCS recently assigned two officers to the U.S. Mission to the EC to monitor the EC process and help U.S. firms take advantage of new market opportunities in Eastern Europe. The US&FCS opened commercial sections in Czechoslovakia and Germany in the summer of 1990 and has added commercial staff for Hungary, Poland, and Romania. Additional sections will be opened as the opportunity arises.

Some specific programs provided by the United States and Foreign Commercial Services to U.S. firms are:

Counseling:	one-on-one counseling on the exporting process. It identifies trade and investment opportunities abroad, foreign markets for U.S. products and services, international trade exhibitions, aid available for export financing and insurance, tax advantages of exporting, export documentation, and licensing and import requirements.
Trade dispute assistance:	acts as mediator in disagreements between private trading partners.
Business facilitation:	furnishes the traveling business representative with preparatory market information, business contact lists, and assistance with appointments.
Agent/Distributor Service:	customized search service.
World Traders Data Report:	background evaluations on E.S. firms' potential trading partners, such as agents, distributors, and licensees.
Comparison Shopping Service:	custom market surveys.
Trade opportunity reporting:	trade opportunities "TOPS" advertised daily in New York's *Journal of Commerce* and entered into several electronic data bases with business subscribers.
Commercial News USA:	catalog-magazine promoting new and state-of-the-art products and technology; distributed ten times a year by overseas posts to over 110,000 agents, distributors, government officials, and end-users.
Trade missions:	There are two types. 1. Specialized trade missions led Commerce Department staff bring groups of U.S. business people into direct contact with potential foreign buyers, agents, and distributors for selected product lines.

2. State/industry organized, government approved missions are cooperative efforts between the US&FCS and states, chambers of commerce, trade associations, or other export-oriented groups.

Catalog/video catalog exhibitions: These displays of company literature or video tapes of equipment in operation generate produce exposure and sales leads.

NOTE: Fees are charged for some of the services provided by the US&FCS.

Chambers of Commerce and World Trade Centers

About 80 percent of the membership of the typical Chamber of Commerce is in the small business category. However, only a small percentage of the small businesses in a given area usually belong to the Chamber serving their area. The cost of membership is usually given as the reason for not joining. It suggested that the main role a Chamber of Commerce plays for its members is its relationship with the U.S. Department of Commerce and the Chambers at the state level and State Development Boards who function to improve the business climate of their region. If a World Trade Center is coupled with the Chamber activities, then the opportunities for the entrepreneur in search of new markets increases (*Charleston Regional Business Journal*, 2000).

Private Investor Networks (PINs)

PINs are typically operated by an agency such as an Economic Development Center of a college or university. The PIN is a confidential computerized matching service which brings together entrepreneurs and investors in two stages. A subscription fee is charged both the entrepreneur and the investor. In providing this service, the PIN does not evaluate applications and makes no attempt to screen subscribers or to verify the accuracy of information submitted. Also, PIN does not assist subscribers in negotiating terms of investments. It acts as a link between entrepreneurs and investors (Private Investor Network, 1999).

The NIST Manufacturing Technology Centers Program

This program is of interest to both manufacturing firms and those involved in software development and system integration for the manufacturing industries. The program was established by the Omnibus Trade and Competitiveness Act of 1988. It was this legislation which basically changed the agency known as the National Bureau of Standards to the National Institute of Standards and Technology (NIST). The goal of the program is to bring the results of NIST research to American manufacturers, especially small and medium-sized companies. The specific objective of the program is to enhance productivity and technological performance in U.S. manufacturing companies through

(1) the transfer of NIST-developed manufacturing technology and techniques to MTCs and, through them to manufacturing companies throughout the United States;
(2) the participation of individuals from industry, universities, state governments, federal agencies, and, when appropriate, NIST itself in cooperative technology transfer activities;
(3) efforts to make new manufacturing technology and processes of use to U.S.-based small and medium-sized manufacturing companies;
(4) active dissemination of information about manufacturing to industrial firms; and

(5) utilization when appropriate, of expertise and capability existing in Federal laboratories other than NIST.

An MTC's efforts focus solely on transferring manufacturing technology as a means of enhancing the productivity and technology of the firms in its regional manufacturing base. As such, MTCs do not involve themselves in activities centered on research or development of new manufacturing technology. The premise of the MTC program is that the necessary advanced manufacturing technology exists but is underutilized and that small and medium-sized manufacturers are limited in their ability to identify and apply advanced manufacturing solutions to their business needs.

The structure of the MTC program is such that NIST may provide no more than 50 percent of the capital and annual operation and maintenance funds required to create and maintain a center. The MTC is required to contribute at least 50 percent for the first three years and an increasing share for each of the following three years. In no event will funding be provided by NIST after the sixth year of operation; thus, self-sufficiency after six years of NIST support is a fundamental goal. An ideal MTC comprises three elements:

(1) MTC in-house manufacturing expertise,
(2) cooperative linkages to principal sources of technology, and
(3) strategic relationships with technology delivery organizations.

Five of the 13 proposed MTCs are now in place or being activated: Southeast Manufacturing Technology Center, operated by the University of South Carolina, in Columbia, South Carolina; Great Lakes Manufacturing Technology Center, operated by the Cleveland Advanced manufacturing Program in Cleveland, Ohio; Northeast Manufacturing Technology Center at Rensselaer Polytechnic Institute in Troy, New York; plus new centers in Michigan and Kansas to aid small and medium-sized businesses.

Typically, an MTC will coordinate with area and regional technical colleges and in some cases place representatives in these colleges to serve a given geographic area (NIST, 1990, 2000, and undated brochures).

The Tax Reform Act of 1986

The impact of the Tax Reform Act of 1986 (ACT) cannot be explained in full in this short space. Included here are portions the ACT and those rules and definitions concerning the investment tax credit. The opportunities for small business lie in the definitions and descriptions in the Research and Experimental (R&E) tax credit areas. The ACT extended the research credit with some important modifications. R & E credit is reduced to 20 percent and keeps the base period rule only for qualified research expenses. The base period is the three-tax-year period ending with the tax year immediately preceding the tax years beginning after 1986. The new category of "basic research expenses" replaces the prior law's contract research expense. The word "code" refers to the Internal Revenue Code of 1986 (RIA, 1986; Smith, 1990; IRS.gov).

Qualified Research

The 1986 Tax Act provides that the term "qualified research" research means research with respect to which expenditures may be treated as expenses under Code Section 174 if undertaken for the purpose of discovering information which is technological in nature, and the application of which is intended to be useful in the development of a new or improved business component of the taxpayer, and substantially all of the activities of which constitute elements of a process of experimentation as defined ... The term does not include any activity specifically excluded ...

Qualified Research Expenses

Qualified research expenses include all internal and external expenses in the appropriate activity categories. This includes: Wages for qualified expenses; Supplier used in conducting qualified research; Rentals for the use of computer and software in qualified research. ---Code Section 41(d)(1) as added by '86 Act 231(b).

There are several key words to consider: -Quality, Reliability, Performance, New or Improved Function. These are the words that relate to day-to-day operations in many firms, including service as well as manufacturing. The chief watchwords here lie in the code definition of the term "business component." Business component is defined as:

> ...any product, process, computer software, technique, formula, or invention that is to be held for sale, lease, or license, or used by the taxpayer in a trade or business of the taxpayer. ---Code Section 41(d)(2)(B)

Not included is research conducted outside the United States, research in the social sciences, arts, or humanities, or research funded by government agencies. There are special rules for production processes (see Code Section 41(d)(2)(C). Some examples of where the ACT applies are: Product design and development; process analysis; inventory policy; quality assurance;

automation and advanced technology; sixty-five percent of qualified outside research expenses.

CONCLUSIONS

The brief information above identifies both concerns and opportunities for entrepreneurs seeking ways to expand current business or launch into new directions have the assistance of a number of experts and potential funding sources at their disposal. Again, the focus of support comes from concentrated government sponsored programs. The United States has a large number programs available and these programs do change from year to year. While the number of programs available creates opportunities for SMEs seeking assistance, it is apparent that so many programs exist, that the SMEs have difficulty in identifying which program is more suited to its needs. The perceived government "red tape" and adversarial relationship between industry and government in the U. S. is also seen as deterrent to entrepreneur in taking advantage of available programs.

The greatest level of coordination at this time appears to be between the Department of Commerce, World Trade Centers, and Chambers of Commerce. Obviously, a business will not be able to take advantage of each program offered, but one or more should fit nearly every organization. Consultants or counselors should ensure that their clients are aware of the benefits available to those firms which are making definite efforts to increase productivity and quality. Academicians should investigate these areas for inclusion in course work or as a basis for further research.

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A STUDY ON SELF-MONITORING AMONG SERVICE AND TECHNICAL ENTREPRENEURS

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ABSTRACT

Structural changes in the economy and the advancement in technology have resulted in reduced opportunities for employment. Larger enterprises and government organizations are shifting focus towards self-employment and small firms as important sources of new jobs. Entrepreneurship has a vital role to play in creating those jobs. The rapid economic changes call for a high degree of entrepreneurship, which will help to cushion adverse social impacts of unemployment by facilitating the creation of new employment opportunities as old ones decrease.

Research has demonstrated that the increasing importance of the contribution of firms engaged in technology and services based on both creation of employment and development of innovative practices. It is postulated to study the two types of entrepreneurs' viz. service and technical using a personality variable. It facilitates to further the understanding about the individual behind these ventures and the determining factors that go into choice of a particular type of venture.

Seventy (70) Service and 92 Technical entrepreneurs completed the 13 item Self-monitoring scale on a four point rating scale along with it the profile of the entrepreneurs was also formulated. Further, the mean Self-monitoring scores of the Service *and Technical entrepreneurs were compared. It was found that Service entrepreneurs score significantly higher than the Technical entrepreneurs. The implications of the results are discussed in detail.*

INTRODUCTION

Entrepreneurs are essential agents of change in a market economy, fuelling the drive for the increasingly efficient use of resources and facilitating trade between parties with different preferences and competencies. Entrepreneurial behavior is likewise a key to accelerating the generation, dissemination and application of innovative ideas. The entrepreneur is therefore the architect of innovation, and societies that wish to foster innovation (either low or high technology) must create an environment conducive to the entry and maintenance of entrepreneurs and the associated small new ventures that they produce.

Structural changes in the economy and the advancement in technology have resulted in reduced opportunities for employment. Larger enterprises and government organizations are shifting focus towards self-employment and small firms as important sources of new jobs. Entrepreneurship has a vital role to play in creating those jobs. The rapid economic changes call for a high degree of entrepreneurship, which will help to cushion adverse social impacts of unemployment by facilitating the creation of new employment opportunities as old ones decrease.

THE ENTREPRENEUR

The entrepreneur is viewed as someone who assumes the social, psychological, and financial risks necessary to start and run a small business (Hisrich & Peters, 1992). A more prominent position to the entrepreneurial figure is identified by four basic responsibilities: a) Collecting, processing and evaluating economic information; b) the execution of essential calculations; c) the stimulation of the production process; and d) control of the above mentioned process under the most auspicious economic conditions. From this vantage point, it seems clear that Menger (1994) envisages the entrepreneur fundamentally as a calculator, organizer or controller.

The entrepreneur performs the role of a manager and possesses a certain psychological capacity, to stimulate (or 'boost') entrepreneurial organization. In fact, the entrepreneur can be differentiated into two types: a) the 'management entrepreneur' who serves a routine, directorial function; and b) the innovative entrepreneur, coinciding in many ways with Schumpeter's vision, who can employ the necessary methods in order to create and steer a firm which has profitable opportunities in the market or in the function of production (Leibenstein, 1995).

ENTREPRENEURIAL TYPES

Typologies on entrepreneurs are aimed at either imaginative or subjective classifications and descriptions. (Danhof, 1949). Based on the evolution of the firm entrepreneurs were classified into Administrative and Independent entrepreneurs (Collins & Moore, 1964). The classification of entrepreneurs through empirical endeavor resulted in opportunistic and craft entrepreneurs. Which further Resulted in the conclusion that entrepreneurial types are not homogenous but heterogeneous. Significantly, the understanding of cross section of various types of entrepreneurs would facilitate the saying ‘right man for the right job’. Alternatively ‘right type of entrepreneur for right type of enterprise’ (Smith, 1967). On further investigation it was reported that opportunistic entrepreneurs were found most often among entrepreneurs than Craft entrepreneurs (Gilmore, 1971). Alternatively, craft entrepreneurs represent the individuals who work in an organization carrying out the technical function.

Libenstein (1970) envisaged managerial and innovative entrepreneurs to denote the former to carry out routine directional function, while the latter to employ the necessary methods in order to create and steer a firm, which has profitable opportunities in the market or in the function of production. While Based on certain psychological variables Hundal (1971) distinguished Fast Progressive Entrepreneurs (FPE) form Slow Progressive Entrepreneurs (SPE). Swayne and Trucker (1973) classified entrepreneurs into three-fold classification referring to as Innovative, Modest Risk Taker and Growth Oriented entrepreneur. The personality and biographical characteristics significantly differentiated one set of entrepreneurs from the other (Scanlan, 1979).

Based on the nature of business entrepreneurs are categorized into Cantillon entrepreneur, Industry maker, Administrative entrepreneur, Small Business Owner Operator and Independent entrepreneur (Webster, 1977). Moulik, Patel and Basu (1978) grouped entrepreneurs into three broad categories, as manufacturing, processing and trade or service, these groups require three different sets of traits for their success. (Vesper, 1980) classified entrepreneurs into 11 different types, and pointed out that each of these can be further subdivided. His divisions include: solo self-employed individuals, team builders, independent pattern multipliers, economy-of-scale exploiters, capital aggregators, acquirers, buy-sell artists, conglomerators, speculators, and apparent manipulators. Business owner-managers who use their capital to establish business are classified as self-employed, small employer, owner-controller and owner director (Scase & Goffe, 1982). Using empirical data entrepreneurs were classified into First Generation Entrepreneurs (FGE) and Second Generation Entrepreneurs (SGE). The FGE were reported to be significantly different from SGE on a host of biographical characteristics like, the propensity to adopt innovations, the personality characteristics, and the perception of self-concept and show significant difference and distinguish one from the other (Venkatapathy, 1983; 1984; 1985).

Growing research effort has been devoted to serial or habitual entrepreneurs. Given that entrepreneurship may involve the purchase of an existing business as well as the formation of a new one (Cooper & Dunkelberg, 1986). Using a qualitative examination of the general occupational experience of the technical entrepreneur in the innovation process at previous companies worked for, the individual technical entrepreneurs are classified into four broad categories, namely 'research', 'producer', 'user' and 'opportunist' technical entrepreneur (Jones-Evans, 1995a; Jones-Evans, 1994a; Jones-Evans & Steward, 1991). In relation to specific skills possessed by entrepreneurs are classified into four types as a) The personal achiever entrepreneur b) The emphatic supersalesperson entrepreneur c) The real manager entrepreneur and d) The expert idea generator entrepreneur (Miner, 1997).

SERVICE AND TECHNICAL ENTREPRENEURS

Entrepreneurship emphasizes on economic development. Research has demonstrated the increasing importance of the contribution of firms engaged in technology and services based to both creation of employment and development of innovative practices. The profile of the Service entrepreneurial type reveals that they are aggressive and at the same time compliant (Prasanna & Venkatapathy, 1999). This is due to the fact that Service entrepreneurs are expected to be aggressive in promoting their services but at the same time the customer expects a compliant behavior while receiving the services. The high degree of competitive environment and the higher percentage of failures in the service industry require the entrepreneurs to exhibit a higher level of achievement orientation and self-esteem. Whereas, the Technical entrepreneur who is often not in direct contact with the customer and who has a strong belief in his own skills for the success of his venture exhibits higher detached behavior and personal control orientation. The technical entrepreneurs demonstrate a lower achievement and self-esteem (Prasanna, 1999).

In an environment of large-scale customization, high technology, short cycle times, diverse customer requirements, vast consumer knowledge, overnight obsolescence, and global competition, an increasing percentage of processes are beyond the ability of a single individual to master, resulting in lower achievement and self-esteem orientation. The contribution of Technology and Service based firms to the economy has been highlighted in series of studies. However, dearth of research evidence necessitated this research endeavor to find out the similarities or differences among an emerging and growing entrepreneurial research viz., entrepreneurial cross sections.

It is postulated to study the two types of entrepreneurs' viz. service and technical using a personality variable. To further the understanding about the individual behind these ventures and the determining factors that go into the choice of a particular type of venture, the present research has been commissioned.

SELF-MONITORING

Almost everyone attempts to regulate his or her own non-verbal behavior on occasions. This does not imply that all persons will attain equal success. On the contrary, it is clear that in this respect large individual differences exist and influence social interactions. One of the characteristics that has received growing attention is self-monitoring (Snyder, 1987). Self-monitoring refers to a cluster of characteristics closely related to the ability to adapt one's behavior to current social situations. Persons high in self-monitoring might be described as social chameleons; they can readily adjust their social behavior to demands of given situation. In contrast, a person low in self-monitoring tends to show a high degree of consistency. He or she maintains a consistent non-verbal expression across a wide range of situations.

Self-monitoring has shown strong positive relationships to interpersonal competence (Athay & Darley, 1981), organizational success (Sypher & Sypher, 1983), and career success (Snyder &

Campbell, 1982) and High self-monitors, in comparison to low self-monitors, appear to perform better in boundary-spanning jobs that require sensitivity to social cues (Caldwell & O'Reilly, 1982), resolve conflicts through collaboration and compromise (Baron, 1989), receive more promotions (Kilduff & Day, 1994), and emerge as leaders of small groups (Ellis & Cronshaw, 1992; Kent & Moss, 1990; Zaccaro, Foti, & Kenny, 1991).

HYPOTHESIS

The dearth of studies relating to service and technical entrepreneurial types on their personality has resulted in formulation of the null hypothesis that:

Service and Technical entrepreneurs would remain homogenous on their scores on self-monitoring.

INSTRUMENTATION (SELF-MONITORING SCALE)

The Revised Self-Monitoring Scale, developed by Lennox and Wolfe (1984), was used as the measure of self-monitoring among the entrepreneurial types. This instrument contains 13 Likert-type scaled items, (1 always false; 4 always true) designed to assess the two components of self-monitoring: (a) sensitivity to expressive behavior of others (6 items) and (b) ability to modify self-presentation (7 items). Self-monitoring is considered as a continuous variable, in contrast to scales developed by Snyder (1974) and Snyder and Gangestad (1986) in which responses to true-false questions are used to place respondents into dichotomous categories of high and low self-monitors. Eleven (11) items were scored in the direct method while 2 items were scored in the reverse direction. Responses to items are summed to yield scores for the total Revised Self-Monitoring Scale and for the sensitivity and modifiability subscales. Reliability coefficients in this study were .55 for the sensitivity subscale, .54 for the modifiability subscale, and .71 for the overall scale.

Validity

The item sum correlation method was used in validating the scale. High and low groups were formulated and the individual and the total scores were correlated. Using the difference between the Z scores the discrimination between the groups was worked out by the standard error difference. The C.R. value has been taken into consideration for determining the validity of the items. Only values above 1.96 were considered valid, the scale has adequate validity as shown by the validation technique.

Reliability

Using the split-half method (Prasanna & Venkatapathy, 1999) reported the following reliability coefficients of the self-monitoring scale, .47 for the sensitivity subscale, .45 for the modifiability subscale, and .60 for the overall scale.

SAMPLE

Two hundred respondents were marked out from the list of entrepreneurs registered with the District Industries Center (DIC) Coimbatore. Snowball sampling technique was used to select the respondents based on their nature of business and investment in plant and machinery (10 lakhs to 100 lakhs of rupees). The respondents selected were involved in service/technology related business. The sample consisted of a matched sample of 100 respondents belonging to the entrepreneurial types mentioned. The sample consisted of respondents representing the various parts of Coimbatore district. The researcher approached the respondents individually and after explaining the purpose of the visit collected information from the respondents using the instruments earmarked for the purpose of the present study. Twenty-two respondents were unwilling to respond to the research process and 16 respondents provided incomplete information. Thus, the final sample consisted of 162 respondents consisting of 70 service entrepreneurs and 92 technical entrepreneurs.

RESULTS & DISCUSSION

Biographical Profile

The service and technical entrepreneurs differ between themselves on a series of biographical characteristics. The service entrepreneurs are younger compared to the technical entrepreneurs. Possibly, it may be due to the reason that the service-oriented industries have gained importance during the recent times. The entries into these types of industries are also recent. Less number of service entrepreneurs were married compared to technical entrepreneurs. This can be because of the age factor and the time required by them to establish their ventures. Higher number of service entrepreneurs displayed an urban background, since services play a prominent role in the urban areas, resulting in enhanced awareness about service industries. With regard to the educational qualifications, the technical entrepreneurs have a higher level of education specifically, technical education. Since, the successes of the ventures are directly related to the technical competence of the entrepreneurs. The work experience patterns of the entrepreneurial types reveal that service entrepreneurs possess lesser number of years of experience. Since, the type of enterprises they venture into require more off- job skills compared to the technical entrepreneurs. The technical entrepreneurs have started more new ventures than the service entrepreneurs have, since they have entered the industry at a much earlier stage. Further the scope to start a related ancillary or feeder industries are higher. The service entrepreneurs need to invest higher capital due to the variety of the service ventures that call for better and effective logistic management. The industries' orientation towards services has resulted in higher returns. Probably this could be one of the reasons for the service entrepreneurs to project a higher turnover compared to the technical entrepreneurs. The pattern with regard to the number of employees shows that technical entrepreneurs employed a higher number of workers since many of these ventures are labor intensive. Technical entrepreneurs choose more complex ventures compared to service entrepreneurs due to the venture requirements and complex production and operation functions. Anuradha Basu (1998) in a study on entrepreneurial activity among Asian small business in Britain reported that previous experience in current business (35.9%) and easy kind of business to enter/run (28.2%) are the two major factors that influenced the entrepreneurs to choose a particular line of business. Thus it is seen that there is a possibility of developing distinctive profiles for the two entrepreneurial types.

Table 1 shows the mean, standard deviation and the critical ration for scores on the modifiability subscale of self-monitoring scale among Service and Technical entrepreneurial types

Table 1
Scores on the Modifiability Subscale of Self-Monitoring Scale among Service and Technical Entrepreneurial Types

Scale	Category	N	Mean	S.D.	Critical ratio
Modifiability subscale	Service	70	21.67	2.22	4.14**
	Technical	92	20.04	2.80	

Table 2 shows the mean, standard deviation and the critical ration for scores on the sensitivity subscale of self-monitoring scale among Service and Technical entrepreneurial types

Table 2
Scores on the Sensitivity Subscale of Self-Monitoring Scale among Service and Technical Entrepreneurial Types

Scale	Category	N	Mean	S.D.	Critical ratio
Sensitivity subscale	Service	70	19.23	3.07	2.18*
	Technical	92	18.40	2.92	

*** Significant at .01 level.* ** Significant at .05 level.*

Tables 1 and 2 show the mean, standard deviation and the critical ratio for service and technical entrepreneurs on their scores on self-monitoring. The service entrepreneurs have a higher mean score compared to the technical entrepreneurs on the two subscales of self-monitoring i.e. a) Ability to modify self-presentation & b) Sensitivity to expressive behavior of others. The critical ratios show a statistically significant difference at .01 level for Modifiability subscale and .05 level for the Sensitivity subscale. Hence, the null hypothesis that the entrepreneurial types will remain homogenous on their scores on self-monitoring is rejected. And the alternative hypothesis that the entrepreneurial types remain heterogeneous on their scores on self-monitoring is accepted. This supports the view that Service entrepreneurs are more aggressive and at the same time compliant. Service entrepreneurs are expected to be aggressive in promoting their services but at the same time the customer expects a compliant behavior while receiving the services. Further, the high degree of competitive environment and the higher percentage of failures in the service industry require the entrepreneurs to exhibit a higher level of achievement orientation and self-esteem.

The Technical entrepreneur who is often not in direct contact with the customer and who has a strong belief in his own skills for the success of his venture exhibits higher detached behavior and personal control orientation. An environment of large-scale customization, high technology, short cycle times, diverse customer requirements, vast consumer knowledge, overnight obsolescence, and global competition, an increasing percentage of processes are beyond the ability of a single individual to master resulting in lower achievement and self-esteem orientation. It can be noticed that many of the characteristics associated with high self-monitors have close relevance to service entrepreneurs which have been authenticated by the Service entrepreneurs obtaining a higher mean score on self-monitoring compared to Technical entrepreneurs.

The studies on typology of entrepreneurship have diminishing importance in the current environment since most of the previous types of entrepreneurs have become redundant. The current knowledge revolution has thrown up a different class of entrepreneurs; high technology firms and service firms have turned out to be the major contributors to the economy. Current economies of many countries are influenced by the technology and service based industries. Thus, it is imperative to study the entrepreneurs behind these ventures, so that more entrepreneurs can be trained in accordance.

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APPENDIX

SERVICE ENTREPRENEUR (Prasanna & Venkatapathy, 1999): Initiates and manages small service based firms involved in providing innovative services. The entrepreneurial qualities of the founder are considered to be among the main strengths of the business added to the wealth of market experience that the entrepreneur has developed within the particular industry prior to start-up.

TECHNICAL ENTREPRENEUR (Prasanna & Venkatapathy, 1999): Initiates and manages small technology-based firms involved in introduction of innovative technology into the market. High degree of technical expertise of academic and technical nature characterizes the entrepreneur.

THE REVISED SELF-MONITORING SCALE

Please read the following statements carefully & please record your response as the degree to which you think the following statements are true or false by (a) the appropriate box.

__Always false __Sometimes false __Sometimes true __Always true

	Items	C.R.
1	In social conditions, I have the ability to alter my behavior if I feel that something else is called for.	3.00**
2	I am often able to read people's true emotions correctly through their eyes.	2.66**
3	I have the ability to control the way I come across to people, depending on the impression I wish to give them	2.80**
4	In conversations, I am sensitive to even the slightest change in the facial expression of the person I am conversing with.	2.20*
5	My powers of intuition are quite good when it comes to understanding others' emotions and motives.	2.53*
6	I can usually tell when others consider a joke in bad taste, even though they may laugh convincingly.	2.00*
7	When I feel that the image I am portraying is not working, I can readily change it to something that does.	2.40*
8	I can usually tell when I've said something inappropriate by reading the listener's eyes.	2.86**
9	I have trouble changing my behavior to suit different people and different situations.	3.13**
10	I have found that I can adjust my behavior to meet the requirements of any situations I find myself in.	2.73**
11	If someone is lying to me, I usually know it at once from the person's manner of expression.	2.66**
12	Even when it might be to my advantage, I have difficulty putting up a good front.	3.20**
13	Once I know what the situation calls for, it is easy for me to regulate my actions accordingly.	2.40*

*** Significant at .01 level. * Significant at .05 level.*

IMPACT OF E-COMMERCE ON ENTREPRENEURS AND SMALL BUSINESSES: OPPORTUNITIES, CHALLENGES, AND STRATEGIES

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ABSTRACT

Small businesses and entrepreneurs are rushing to the Internet to do business and reach new markets. While e-commerce is used for advertising, business-to-consumer and business-to-business transactions, small businesses and entrepreneurs encounter several challenges. This paper examines both the opportunities and challenges that are posed by the use of e-commerce and makes recommendations to small businesses and entrepreneurs so they can overcome the challenges and exploit the opportunities presented by e-commerce.

INTRODUCTION

The Internet and the World Wide Web (WWW) are revolutionizing the way organizations are functioning around the world. The Web is used by organizations in a myriad of ways, some of which include collaborating, communicating information, obtaining information, providing information, and sharing information. One application of the Web that is grabbing headlines in virtually every media is Internet commerce or Electronic Commerce (e-commerce). E-commerce – the marketing, promotion, buying and selling of goods and services over the Internet is experiencing unprecedented growth (Williams, 1999). In the past 2 or 3 years, e-commerce growth has been astonishing and is expected to continue at a similar rate over the next four years.

Small business use of the Internet (e-commerce and other applications) has increased from 10 percent in 1996 to about 75 percent today; this use is expected to increase to 85 percent by 2002 (Song, 2000). However, currently, only 28 percent of small companies sell goods and services online (Maxwell, 2000). If one looks at businesses with fewer than 10 employees, one sees a slightly different picture. In 1999, about 15 percent of these 7.5 million small businesses in the U.S. conducted e-commerce (*Business Week e.biz*, 1999). This number is expected to increase to 20 percent by the year 2001. Although these statistics provide evidence that smaller organizations are now conducting e-commerce activities, large companies still account for the majority of e-commerce activity in the U.S. These statistics also fail to tell us whether or not selling online is a better method for small business.

Over the past few years, a decrease in the prices for software and hosting services has reduced the barriers to entry in the online environment. Even the smallest of businesses can now have a presence on the web and conduct commerce. Selling online, however, is not without its perils. Blindly diving headfirst into the Internet without a complete understanding of technical, managerial, and competitive challenges may result in stressed operations or bankruptcy.

A question, then, arises: should small businesses and potential entrepreneurs embrace the Internet? The answer to this question lies in how well a business understands e-commerce opportunities in its environment and implements strategies to take advantage of these opportunities. This paper will examine the opportunities that are available for small businesses and entrepreneurs on the Internet, identify the challenges they are likely to encounter, and suggest strategies they can develop and implement to take advantage of e-commerce opportunities.

OPPORTUNITIES

E-commerce takes a number of forms: business-to-consumer (B2C), business-to-business (B2B), e-procurement, and e-marketplace. According to Forrester Research (2000), the U.S. share of global B2B e-commerce sales will grow to approximately $3 trillion by 2004, while B2C e-commerce sales will account for $184.5 billion (see Table 1). E-commerce is growing much faster in the B2B sector compared to B2C and is largely dominated by larger companies. By the year 2002, 85 percent of small businesses are expected to conduct business via the WWW.

Table 1
Growth of E-commerce Activities in the U.S. ($ in Billions)

E-Commerce Category	2000	2001	2002	2003	2004
Business-to-Business (B2B)	$449.9	$799.9	$1,310.2	$2,043.4	$3,004.5
Business-to-Consumer (B2C)	$38.8	$64.2	$101.1	$143.8	$184.5
TOTAL	$488.7	$864.1	$1,411.3	$2,187.2	$3,189.0

Source: *Global e-Commerce Approaches Hypergrowth*, Forrester Research, Inc., April 18, 2000.

Retailing or "e-tailing" is the most typical B2C activity. New ventures or small businesses can use the Internet to either start a new retailing or service business, enhance an ongoing business or provide hardware, software, or services that allow other businesses to integrate the Internet into their business model. A small business selling from a traditional store, called "bricks and mortar" may see the opportunity to increase market share by creating a Web page and selling on the Internet.

While there are many large Internet service providers (ISP), such as America Online (AOL), there are also many small businesses that provide this service. According to a report by Williams (2000), most of the 7,100 ISPs in 2000 have fewer than 12 employees; the number of ISPs is expected to reach 10,000 in the next 2 to 3 years; and the U.S. ISP market generated an estimate of $15 billion in receipts in 1998. The number of small businesses that provide Internet services have experienced tremendous growth because of the increase in demand for Internet access. Many of them are finding opportunities in providing additional hardware, software and service opportunities as they see the opportunity to host and design web sites for Internet businesses. They are also providing consulting services for those new businesses.

One of the major opportunities for entrepreneurs and small business in the future will be in the area of B2B. According to Boston Consulting Group, by 2003, more than 65 percent of all B2B e-commerce purchases will be made by six sectors: retail trade, motor vehicles, shipping, industrial manufactured equipment, and the government. This will provide ample opportunities for entrepreneurs and small businesses to find niches in this market.

B2B e-commerce is primarily concerned with increasing the efficiency of businesses through the use of Internet technology. It helps companies find buyers for specialized goods and services, time-sensitive goods, second-hand goods, and excess inventory. Small businesses can benefit from B2B e-commerce through the formation of coalitions that negotiate for better prices.

Sellers of goods and services can benefit through the reduction of costs associated with finding new customers. Other advantages of B2B e-commerce include improved service and retaining customer loyalty. B2B e-commerce also provides small companies an alternative to traditional EDI networks in doing business with large companies (buyers) who are increasingly forcing all of their suppliers to trade electronically.

Marketplaces have recently become an Internet application for business-to-business procurement using an auction mechanism where businesses that supply an industry bid for the opportunity to sell their goods. A number of general sites such as Commerce One and Ariba have pioneered this activity, but now individual marketplaces for specific industries have grown, developed by companies within these industries.

For entrepreneurs interested in software development, it is important that software be integrated with other software that the clients use. This can also be a barrier to entry if programming skills and intimate knowledge of the programming in other software packages is not available.

One of the primary reasons for the wide influx of new online ventures is the low barrier to entry. You can start an Internet business for as little as a few hundred dollars. In addition, companies like BigStep.com, eCongo.com, Earthlink.com, Tripod.com, and Freemerchant.com offer free online services to setup a business with access to online catalogs, credit card processing, and order-tracking services. However, entrepreneurs and small businesses must use caution because some companies require long-term agreements that would eventually lead to extra expenses for added services and expensive support for technical problems. Microsoft, Intel, Intuit also offers inexpensive sites. These trends have accelerated the migration of entrepreneurs and small businesses towards conducting commerce on the Web.

There are several advantages to having an Internet presence. For example, statistics show that the Internet is increasingly becoming global (Forrester, 2000). Furthermore, having an Internet presence allows a company to remain open seven days a week, 24 hours a day. You can also build your business in a phased approach. Additionally, in many cases the consumer will not be able to tell the difference between a small versus a big business, thus limiting your liability of smallness. You can be a one-person operation that competes with a 500-employee firm.

Small businesses can use the Internet to expand their markets, improve efficiencies, attract and retain customers, and exploit new e-Business opportunities (Oracle, 1999). Other opportunities include customer service, technical support, data retrieval, public and investor relations, security and payment issues, cutting costs, and obtaining advice/information. Existing businesses have the opportunity to adopt e-commerce early and build an infrastructure that dramatically reduces the costs of doing business while improving relationships with buyers and suppliers. Through e-commerce efficiencies, they have the ability to reduce the costs of billing, payment, customer service, distribution/ fulfillment costs, reduce supply chain management, procurement, and expense management costs.

Small businesses have the advantage of using the Internet to build relationships with suppliers who before gave them little recognition. With the Internet, small businesses have the ability to gather information and goods much quicker, reducing inventory and thus reduce costs. The use of customer service through the Internet can also assist a company through product descriptions, technical support, and order status information online. This frees up a company's customer service staff to handle more complicated matters. For example, Internet sites like Realestate.com have allowed consumers to reduce the time to purchase a home by 75 percent by providing information on purchasing homes.

One of the key opportunities of the Internet lies within the value chain. Companies have the opportunity to cut out the middleman or become a middleman. For example, the traditional value chain flows from the manufacturer, wholesaler/distributor, retailer, and consumer. With the advent of the Internet, entrepreneurs and small businesses have the opportunity to develop relationships with the manufacturers and sell directly to the consumer without having control of the products.

An example of an intermediary can be seen through an entrepreneur that developed a web site called www.avengers.com. The Avengers is an old television series from the 1960s. The site contains a plethora of information about the series and also has merchandise for sale that includes copies of the old shows. When you go to purchase some of the videos, it sends you directly to Amazon.com. If the person purchases the video from Amazon.com, the company receives a percentage of the sale.

Other opportunities on the Internet include companies whose business models are standard online storefronts (e.g., amazon.com), transaction brokers (e.g., e*trade), content providers (e.g., espn.com), auction sites (e.g., eBay), software development companies (e.g., ariba.com), startup consulting companies (e.g., exodus.com), and hosting services (e.g., sitehosting.net).

Small businesses can learn from some of the most innovative companies that have successfully used the Internet: Dell Computer, Sun Microsystems, and Cisco Systems. Dell Computer has become the ideal example for B2B e-commerce. They set up premier pages with over 5000 U.S. companies that allow businesses to order quickly with few errors. The pages are especially designed for each company, connected into their Intranet, and allow the employees to order directly online.

The Internet provides for improved customer service at a lower incremental cost. This is important since we are moving from a product driven to service driven (supplier versus demand) economy. The Internet also provides new distribution channels and new ways of exchanging information. According to Porter (1999), supply chain management will be more cost effective as a result of the Internet. However, the basics of business (e.g., design, technology, and manufacturing) will not be altered. Porter states that the industries where the Internet is likely to be transformational are industries that provide the service or basic information (e.g., stockbrokerages, auctions, or providing digital goods). Table 2 summarizes some of the opportunities of Internet/WWW for small businesses and entrepreneurs.

Table 2: Opportunities of Using Internet/WWW
• E-mail
• Gathering information about potential customers
• Reaching new and potential customers
• Providing information more efficiently
• Providing technical support
• Promotion and advertisement
• Making online catalogs available
• Selling goods & services
• Get customer feedback
• Reaching new & prospective employees
• Expand globally

CHALLENGES AND STRATEGIES

Small businesses have been slower than big businesses to embrace e-commerce. Although small businesses and entrepreneurs use of Internet is increasing, they will face a number of challenges as they start using Internet/WWW for e-commerce. Further global expansion of e-commerce will create new challenges for small businesses and entrepreneurs. This section examines both challenges and the strategies that small businesses and entrepreneurs can utilize to take advantage of e-commerce.

The B2C market is currently in its shakeout stage and is a low margin, high capital business that will take until 2003 to be profitable. Over the past few years, B2C companies have skyrocketed in value, however the recent downturn in the Internet sector has seen many companies lose 50 percent or more of their value. Investors are putting pressure on these firms to produce profits. In the past, these firms were valued by their sales, now investors are demanding that these firms produce net profits along with a strong revenue model.

Table 3
Challenges and other Issues Related to Using Internet/WWW

- Cost of building and maintaining web site
- Cost of building a transaction based web site
- Developing back end integration into company's existing system
- Lack of technical expertise
- Difficulty in attracting and keeping technologically skilled personnel to serve the web site and customers.
- Security concerns – securing customer data (from fraud & hacking) and customer trust.
- Customer service (loss of customer contact)
- Privacy of consumers and businesses
- Taxation of goods and services sold over the Internet
- Exportation of e-commerce goods

As a result of these activities, money raised by B2C companies has dipped 23 percent to $1.4 billion in the first quarter 2000 from the fourth quarter of 1999. During the first quarter of 2000, only 5 percent of venture capital funding went to e-Commerce startups, down from 12 percent in the previous quarter (Donahue & Girard, 2000).

An increasing number of B2C companies are withering away due to an increase in the number of competitors (Oracle, 2000). This effect has been particularly felt in retail industries such as toy stores, computer sellers, and office supplies. Survival projections for several of the dot.com retailers look bleak (Forester Research, 2000). Clothing retailer boo.com recently liquidated their company after burning $100 million in six months.

Table 4: Strategies	
Brand	• Consumer awareness of what the company does • Promotion • Relationship marketing - Sending updates and other notices to consumers • Community building - Facilitating interactions between individual shoppers • Depth and breadth of product offering on the site
Navigation	• Navigation clarity • Navigation access - Navigation is consistent and easy to find
Fulfillment	• Protection of personal information • Provide feedback or a confirmation number once the order is placed • Explain the return policy clearly • Make it simple for the customers to buy online
Presentation	• Clarity of purpose • Resemblance to other trusted sites

The low barriers to entry and increase in competition will have an increasingly negative effect on entrepreneurs and small business owners' ability to survive within the B2C area. Both traditional and virtual companies' weaknesses have been amplified. Consumers have gained power in the distribution channel by demanding and receiving the lowest prices available. Consumers can achieve this through information intermediaries like CompareNet.com who have information on prices and vendors for over 100,000 consumer products. According to John Hagel of McKinsey & Co., "Consumer infomediaries can save an average client household the tidy sum of $1,100 a year by searching for the best deals on its behalf. The reduction in transaction costs will give more power to the buyer." It is estimated that these infomediaries will grow from $290 million in revenues in 1998 to $20 billion in 2002 (Hof, 1999).

There has been a tremendous surge in the number of B2B companies or exchanges, however most of these businesses are nothing more than meeting places. Hence, it is likely that current projections of large-scale bankruptcies among B2B companies will also become true due to the lack of value-added services for the trading partners. These services typically include integrating back end systems, providing industry specific content, and assisting in the development of RFP's. Horizontal exchanges (e.g., Freemarkets) that provide trading services for several industries are faced with the additional burden of providing compelling content for their customers.

In a sense, the pressure is on for small businesses because they have to eventually participate in buyer initiated exchanges. This is especially the case for small businesses that are tier two or tier three suppliers for large companies like General Motors. In an effort to rationalize and streamline their supply chain, larger companies are insisting their suppliers upgrade their IT systems to a level of sophistication that is on par with the organization. Larger companies want suppliers to deliver goods in a shorter period of time in a cost-effective manner. This requires not only sharing demand forecasting and inventory information but also exchanging information that is in compatible formats. It is also essential that transaction details be easily integrated with back end systems. For example, suppliers are likely to insist that order information should directly be pushed into their order processing systems, rather than retype all the information. On the other hand, large organizations would prefer that supplier initiated information be fed seamlessly into their internal ERP or legacy systems.

For small businesses that have not yet established formal relationships with large company's supply bases, there is also the question of whether to become affiliated with horizontal versus vertical exchanges. It is likely that eventually small businesses will have to participate in several of these exchanges. Typically, several of these exchanges require registration fees, subscription fees, and maybe even transaction fees. Hence, it is important for small businesses to perform a cost benefit analysis before joining an exchange.

Technical Challenges

Once a small business or entrepreneur has decided to conduct business on the Internet, their next strategic decision is to decide how to host their web site. These businesses have three options: host their own web site; host their site with a web hosting service provider; and host their site with a portal such as Yahoo or GeoCities. For a small monthly fee, portals like Yahoo will help any small business develop its site, perform payment processing and tax calculations, maintain the site, and collect site statistics. While this really reduces the development effort, it also reduces the flexibility. Most portals will not let merchants have a virtual domain name. So instead of www.merchantname.com, the address will be store.yahoo.com/merchantname. Also, these portal-based storefronts do not necessarily grow with the business and could get tedious, expensive, and cumbersome when the order volume increases. Since portals like Yahoo host several other storefronts, the download time for potential customers could be very high. Increasing the growth rate will eventually require a site that is more reliable. Finally, if the site requirements grow beyond the capability of a portal-based host, it is impossible to transfer the site contents into a standard format. This is because portals like Yahoo do not allow one to convert site contents developed in their storefront into any recognizable format such as HTML.

Another alternative to portal-based hosting is buying a server. There are downfalls to this strategy as well. For instance, the business might not be able to make decisions about hardware, operating systems, and application servers. This also requires considerable knowledge in installation and setup of a web server. Server connection fees can be prohibitive. The merchant typically will need at least a 64 Kbps connection line to the Internet backbone. This entails line installation costs as well as any other costs for network routing equipment

In most cases it is best to start with a web-hosting provider where the business is not concerned with hosting issues but at the same time has a certain degree of flexibility. However, selecting a web-hosting provider requires careful consideration of several issues: length of the contract, disk space offered per account, ability to run CGI (Common Gateway Interface) and other scripts, conduct secure transactions, e-mail management, availability of access logs, instant credit card validation, connection speed of the web host with the internet backbone, server redundancy in case of traffic spikes, adaptive pricing plans which correspond to scalable requirements, throughput - the number of http requests that a particular web server can handle, and the response time for the server to handle a page request.

Hosting the site with a web-hosting provider might require the business to incur initial development time, cost, and effort. However, with the advent of easy to use tools, this task has become considerably easier. At the most basic level, a typical e-commerce infrastructure for a small business or entrepreneur consists of a web storefront for buyers to browse the site and a payment gateway to collect credit card payments.

In order to perform these functions, several software components are required. First, storefront content development tools such as HomeSite, FrontPage, and PageMill are useful for developing site content and also include features such as creating customer survey collection forms. Second, database connectivity tools such as ColdFusion, ASP, and VisualInterDev are useful for creating database driven applications. Database connectivity is crucial because the web catalog should be consistent with the actual inventory database. Third, setting up a payment gateway requires an HTML based form that collects customer credit card and shipping information. This information is then encrypted using Secure Socket Layer (SSL) and sent to a third party provider (such as First Data), which then forwards the information to the customer's credit card issuing bank. After authorization and a deduction of transaction fees, the net amount is credited to the merchant's account. Typically, payment-processing software like QuickCommerce take care of some of the above functions. It is also important for the merchant to get authentication from a certification authority such as Verisign. Ancillary tools are useful for functions such as tax calculations (e.g., Taxware), site traffic analysis (WebAnalyzer), diagnostics (LinkSleuth), chat sessions (I-chat), live help (Humanclick), and e-mail management (eGain).

Another challenge is to maintain the business 24 hours a day, seven days a week. This requires staffing for customer service as well as technical problem troubleshooting such as site upgrades, hosting failures (server crash), and environmental failures (power outages). Sites also need to be constantly re-evaluated for stress testing (how well they handle peak traffic), page download times, link validation, and usability. It is also important to evaluate how many high margin transactions occur on the site. Small businesses and entrepreneurs with low margin items should consider offline authorization or authorization on a batch basis as opposed to real time credit card authorization. This is because third party payment processors such as First Data as well as the customer's issuing bank charge fees for processing every credit card transaction on a real time basis.

Security is one of the most important aspects of web site operations. Typical attacks include hacking into the site for credit card numbers or even denial of service. Part of the reluctance on the part of customers to buy on-line is their perception that their credit card and other information is not secure. Hence, entrepreneurs and small businesses need to assure their customers that they take adequate security precautions.

It is also important to have contingency plans in the event of an attack. The consequences of not having adequate mechanisms and a contingency plan can be severe. The inability to thwart security related attacks on the site would be unnerving to consumers. The direct effect of this is an immediate drastic reduction in market share because the site is now branded with an image that credit card and other private information is not secure. While contingency plans do not really alter the damage, they can be more useful in that they can be used to reinforce the impression of a secure site.

Business Challenges

When developing a web site, small businesses and entrepreneurs must make sure that they create an attractive site with a sense of community. Building one-to-one relationships and a quick delivery of quality products will be keys to success. Customize your site for clients and receive e-mail to get feedback about the site. If you are selling products, have a virtual catalogue that includes pictures on the site. To save space and decrease the download time, place pictures in small thumbnails. Give the consumer the opportunity to hit a thumbnail to see the big picture.

One of the keys to having a successful online business is brand name recognition. With a lack of brand name recognition, customer perceptions may lead to a lack of trust. Customers may be reluctant to purchase online, especially give out credit card information for fear of hackers. To overcome this objection companies are attempting to create a strong brand name through heavy advertising. As competition increases on the Internet, companies will be increasingly forced to develop their brand name on the Internet and the traditional marketplace. Some strategies that companies have been using are creating gimmicks such as free shipping or offering free items to entice customers to purchase items from their site. The problem with these gimmicks is that they do not lead to a company's sustainable competitive advantage.

Innovative marketing is also a key to success. Some of the more common approaches include: reciprocal links with complementary sites, banner advertising, retailer-search engine portal alliances, prospect fees for visitors who complete some action, and affiliate programs with other merchants. Given the click through rates of 2 percent and then further prospect conversion rates of 3 to 4 percent, it is not only important to attract new customers, but also devise strategies to increase purchases as well as strategies to retain existing loyal customers. These strategies include: personalizing content and promotions, placing complimentary items beside core products, attractive and functional design, and building a loyal user community with chat rooms and discussion threads. For example, online grocery sites can be personalized for specific tastes and preferences such as health conscious groups or international foods.

For sites that feature several product categories and brands, a big issue is usability. Navigation through 10 to 12 screens might result in a frustrating experience for the customer. Instead, it might make more sense to create personal shopping lists that are based on usual purchases. Yet another way companies can enhance their competitiveness is through the reduction of problems related to logistics (e.g., late delivery) and poor inventory management (e.g., out of stock). More recently, companies have found innovative ways of providing customer service on the web. Having links with answers to frequently asked questions is an innovative tool being used by companies.

The Internet has also created new challenges for companies that have traditionally fulfilled the role of middlemen; i.e. bringing buyers and sellers together (for example insurance agents). Companies that have been operating with physical storefronts have had to devise new strategies to compete successfully. This includes the ability to leverage their offline activities with their online operations. For example, Williams-Sonoma, a bridal registry, allows couples to register online while gift buyers can use kiosks located at various places in their physical storefronts to access an updated database of gifts bought.

It is also very important to understand the people who visit your site and which products they purchase. It would be worth investing in site evaluation tools such as SiteAnalyzer to identify typical customer profiles. These tools also provide information related to revenue by page or by product and also revenue by the incoming referral url address. This will help the merchant to evaluate the effectiveness of his banner advertising strategies.

Other strategies include developing strategic alliances with other net companies and exchange banners on their sites, hosting a chat room or discussion group, or advertising on other sites.

Other Challenges

Entrepreneurs and small businesses also need to realize the scarcity of human capital. The U.S. economy is at its lowest level of unemployment in 30 years. Competition for the brightest workers has skyrocketed, resulting in high salaries and a lack of employee loyalty. However, with the recent downturn within the Internet sector, many companies are laying off employees to reduce their costs.

Other challenges include the theft of intellectual material on the Internet. It is essential to protect your site through copyrights and patents. Also make sure that the web designers make your site reliable. Users will also need to be assured that any information given out over the Internet will be used for internal use only and customer service must be in place. Finally, other concerns include the lack of a predictable legal environment, concerns that the government will overtax the Internet, and uncertainty about the Internet's performance, reliability, privacy, and security (Margherio, Henry, Cooke, Montes & Hughes, 1998).

The companies that succeed will take the time to understand the context of the industry in which they operate, rather than focusing on the technology. It is imperative that they understand the industry's distribution channel. If a company can find the fastest and cheapest way of performing theses activities, they will be in a strong competitive position.

Entrepreneurs and small businesses that are interested in doing business online should seek assistance through their local Electronic Commerce Resource Center (ECRC) (www.ecrc.ctc.com). There are over 50 centers located throughout the U.S. ECRCs offer free or low-cost training, seminars, technical support and outreach in a variety of e-commerce areas. Most of their classes are free and include areas like "Marketing Your Goods and Services Using the Internet," "Web Page Creation Using HTML," and "Using the Internet for Business-Related Electronic Commerce."

Finally, be aware that running a business on the Internet takes a lot of knowledge about both technology and business. It is best to outsource as much as possible. Overall, you will have to do a good job in all of the various aspects of running a web business in order to be successful. You must also move quickly to satisfy the customer's needs.

Despite the enormous number of new ventures taking advantage of opportunities on the Internet, no one clear path or business model has been identified as a winner. Different models have worked for different organizations. Having a unique technology or brilliant management does not guarantee profitability. Being a first mover also does not guarantee success. Robert W. Pittman, president of America Online stated, "Consumers look for brand name first and foremost." Building brand awareness through advertising and marketing is critical to success in a new and evolving market like the Internet.

CONCLUSION

The Internet has completed its third or fourth year as a major technology disrupter, a role that will last 10 to 15 years and affect society as thoroughly as the auto industry did a century earlier. A steadily increasing number of people, machines, and data connecting to the Internet will fuel this growth, introducing new opportunities for entrepreneurs and small businesses to supply products and services to support the infrastructure. In the past 24 hours, 2 million new Web pages, 196,000 new Internet-access devices and 147,00 new Web users were added. By 2002, there will be more Web pages than people on the planet (Zander, 2000). Several other studies indicate that small businesses and entrepreneurs are embracing e-commerce and are contributing enormously to the booming new economy.

Entrepreneurs and small businesses are faced with many opportunities to take advantage of the growth of the Internet, however they need to create some sort of sustainable competitive advantage. Porter (1999) asserts that in five years the Internet will be much less prominent. His rationale is that the newness of the industry will have worn off and the Internet will be part of most companies' infrastructure. Furthermore, Porter states that people with Internet expertise are going to be perceived as less valuable and will get paid less in the future. Henry Blodget, a leading Internet analyst, recently stated that out of over 400 public B2C companies, only 10-15 will be profitable over the next five years. Furthermore, one-third of these companies will consolidate over the next two years (Swartz, 2000).

Findings from various research published indicates that the e-commerce is growing at such a rapid rate that ample opportunities will exist for entrepreneurs and small businesses in the near future. While we feel that there is always room for new innovative ideas and products on the B2C side of e-commerce, we feel that the low barriers to entry and increasing level of competition (e.g., Wal-Mart) will drive prices and profits down, making it increasingly difficult to survive.

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IMPACT OF INTERNET ON SMALL BUSINESS: A SURVEY OF ENTREPRENEURS

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ABSTRACT

To help understand the impact of the Internet on small business, a survey of entrepreneurs was conducted. The survey results indicate a majority of small business entrepreneurs are aware of and adapting to the digital world. Eighty percent of entrepreneurs use the Internet in day-to-day business activities even though the extent of usage of the Internet varies widely across firms. Entrepreneurial attitude toward the Internet is more favorable with relatively larger and successful firms operating in dynamic environments. Small businesses with modest goals (i.e. promoting goods/services) were more successful with the Internet than firms with ambitious goals.

INTRODUCTION

The Internet has had a pervasive effect throughout the business world in the United States. Much has been written on this topic and it is really hard to avoid reading any business magazine without a discussion on how the Internet has influenced business outcomes and processes. It is widely accepted that the usage of the Internet is of a competitive necessity for survival of firms. There is also a perception that this digital age could possibly level the playing field for small business in certain sectors of the economy.

In the last few years, a large number of articles and books have been published on this topic. The focus of these articles has been largely on the large business firms or web-based emergent firms and how they have succeeded or failed in the new electronic world. However, during the last decade, small firms primarily have been the economic driver of the United States economy in terms of job creation and economic growth (Birch, 1981; Office of Advocacy, 1998). But very little is known on the impact of Internet on small business firms. For instance, in a library search, minimal information wa found on how small businesses are coping with these dynamic changes in the economy. Hence, it was decided to conduct a survey of small business entrepreneurs to help understand the changes the Internet has had on small business.

This study seeks to answer three exploratory questions: 1) What are entrepreneurs attitudes and opinions on the impact of the Internet on Business; 2) What is the extent of involvement of small business with the Internet; and, 3) What factors influence entrepreneurs' attitudes towards the Internet? This paper is divided into five sections including this introductory section. In section two, the logic behind the questionnaire items, data collection methodology and sample characteristics of this study are explained. Section three presents the findings of this study on the opinions held by entrepreneurs on the Impact of Internet on small business. This section also presents the survey findings regarding the current usage of Internet by small firms. Section four reviews the results of the factors that influence the entrepreneurs' attitudes towards Internet. Section five concludes with the key findings of this study. This section also presents a summary of the responses to the open-ended question in the questionnaire.

DATA COLLECTION METHODOLOGY

Since we had minimal priori expectations, our goal for this study was to gather a reflection of small business entrepreneurs' attitudes and experiences on the impact of Internet on business operations. We also collected some information about firm characteristics to see if any patterns existed between the entrepreneurs' attitudes towards the Internet and the type of the firm. A questionnaire was used as a survey instrument primarily for speed and ease of collection of data. A 5-point Likert Scale was used for all the items except for the one open-ended question at the end of the questionnaire.

Questionnaire Description

In brief, the questionnaire was made up of two parts. Part 1 focused on Impact of Internet on Business. We focused our questions on four issues:

a) Reasons why a firm may choose to implement E-Commerce solutions;
b) Reasons why a firm may choose not to implement E-Commerce solutions;
c) Current usage of Internet by the entrepreneur; and,
d) Life cycle stage of the business unit with respect to the involvement with the Internet.

E-commerce was defined as usage of the Internet for any business related outcomes including promoting, selling and buying of goods and services. Many of the items used in this section were either modified from Sriram and Gupta (1991), Meredith (1987) and DeMeyer, Nakane, Miller and Ferdows (1989) or developed based on the personal consulting experience of the author.

Part 2 focused on the business characteristics and entrepreneurs attitude towards Internet. We collected information on the following items:

Environmental dynamism (Alpha=.8051) is the unpredictability of change in customers' tastes, technology, competition, etc. We measured the degree of dynamism faced by the firm using four items from Miller (1987).

Business performance (Alpha=.8541) was defined as performance relative to its competitors in terms of sales, asset and income.

Complex differentiation (Alpha=.8841) is a strategy of creation and enhancement of a favorable image through aggressive marketing and introduction of new products and features. We used seven items from Dess and Davis (1984), Miller (1987) and Galbraith & Schendel (1983).

Attitude towards Internet (Alpha=.7256). We modified the attitude towards computer scale developed by Lee (1970) to measure the entrepreneur's attitude towards Internet (e.g., the Internet has facilitated the conduct of business; the future of business is based on the ability to adapt to new computer technologies, etc.,).

Size: Annual sales of the firm

Other Descriptive Variables: We also collected information on age of the firm, type of business, number of units managed by the entrepreneur, and the number of employees in the firm.

Data Collection

A convenience sample from a restricted geographic area was chosen for this study. It was felt that such a sample would be the easiest way to ensure a high response rate. Thirty-five local business owners were contacted personally, and after explaining the academic nature of the study their cooperation was solicited. The respondents were also guaranteed confidentiality and anonymity. Only after receiving a positive response from the entrepreneurs the questionnaire was hand-delivered to the concerned entrepreneur.

Of the thirty-five entrepreneurs contacted, two entrepreneurs returned the questionnaire without completing them. Reasons included were that the questionnaire took "too much time" and many questions were "intrusive". One response was lost in the mail. We also decided not to use two of the responses, as it was apparent that the respondent did not understand the questionnaire and left many of the questions unanswered. This resulted in thirty useable responses resulting in an 85% response rate. Even though the response rate reported is high in comparison with similar studies it should be recognized that many of the respondents have participated in the annual small business fair and other events organized by the university in the past and may have felt obligated to respond to the questionnaire.

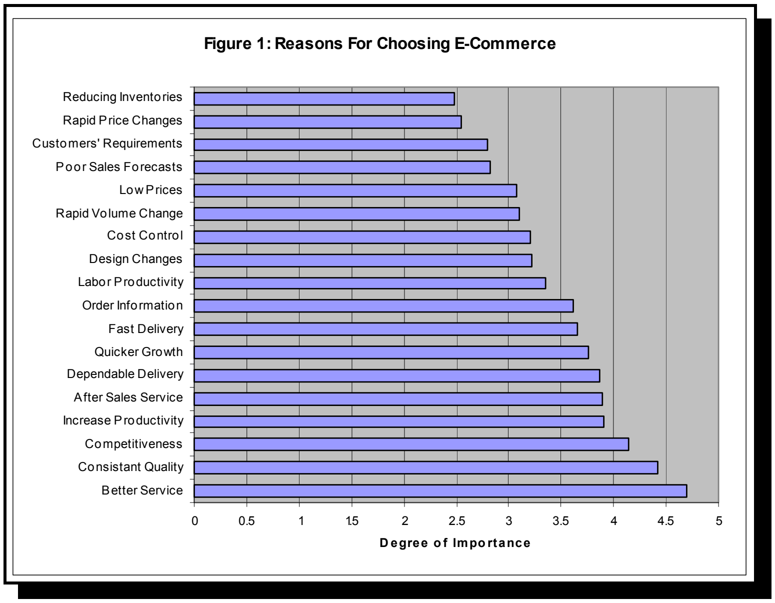
Sample Characteristics

The average age of the firm in our sample was sixteen years. Roughly 50% and 25% of our sample were firms that were less than 10 and 5 years old, respectively. The sample was made of a wide variety of industries; hence, no classification is possible. In general, service firms made up 73% of the sample; whereas manufacturing firms made up 27% of the sample. Sixty-three percent of our respondents were either sole-proprietors or partners of the business. The remaining respondents were largely majority owners of public companies. Eighty percent of the respondents owned one business, whereas the remaining twenty-percent owned two or more businesses. The average sales of the firms in the sample was about $700000. The smallest firm in our sample had $17,000 in annual sales, whereas the largest firm had $ 6 million in annual sales. The average number of employees held by firms in our sample was 14. Roughly 50% of the sample employed fewer than four employees. Fifteen percent of the sample had 25 or more employees.

IMPACT OF E-COMMERCE ON SMALL BUSINESSES

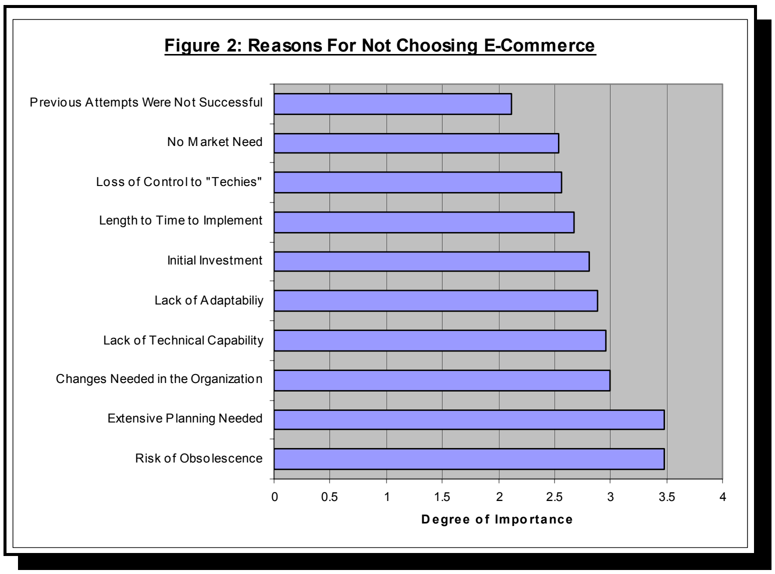
Reasons for Choosing E-Commerce Solutions

Entrepreneurs ranked the need to offer better service as the most important reason to implement e-commerce (see figure 1). The need to offer consistent quality is the second most important reason for small firms to be involved in e-commerce by entrepreneurs. Needless to say, competitiveness was ranked as a third reason as why a firm would choose to implement e-commerce. Among the least important reasons for implementing e-commerce was the need to reduce inventories, rapid price changes, meeting customer requirements and poor sales forecasts. Many large firms consider these reasons critical for implementing e-commerce solutions. Hence, it confounded us why this would be the case for small business. On hindsight it was apparent to us that small business entrepreneurs were probably more capable (or more efficient) than large firms in understanding customers and managing inventory and, therefore, felt the lack of need for a solution in this regard.



Reasons for Not Choosing E-Commerce Solutions

Risk of obsolescence and need for extensive planning were cited by entrepreneurs as the biggest reasons for not implementing e-commerce (see figure 2). Considering the rate of change of computer technologies and the short life span of computer technologies the fears expressed by entrepreneurs seem realistic in this regard. The need for extensive planning to gain effective uses of these technologies even drains the resources of large companies as talent in this area is expensive and scarce. To a lesser extent changes needed in the organization and the lack of technical capability do not seem to hold back small businesses. Entrepreneurs cited previous failure as the least important reason for not implementing e-commerce. Given what is known about entrepreneurs as someone who is not deterred by failure, one is not surprised by the findings.



Current Usage of Internet by Small Business Firms

Among the various uses of Internet, E-mail was the biggest attraction to entrepreneurs (see Table 1). Eighty percent of the sample used e-mail for business purposes. About 64% of the respondents used Internet for some kind of promotion. This fact is further reinforced in the open-ended question included in the questionnaire. Entrepreneurs repeatedly stressed, using different words (e.g., visibility, assessability, exposure, etc.,), how the Internet allowed them to promote goods easily. Other reasons for businesses using the Internet was to order supplies (64%); taking orders (22%); and customer service (32%). Twenty percent of the entrepreneurs surveyed did not use the Internet for any business purposes. Some of the comments made by entrepreneurs in this regard include, "we do not use the Internet, and do not have any plans of doing so".

Table 1
Reasons Cited by Entrepreneurs for Using the Internet

Purpose	Percentage
1. Web site for information purpose only	64%
2. For ordering supplies	46%
3. E-mail	80%
4. Customer order taking	22%
5. Customer service	39%
6. Process automation	32%
7. Not used for business	20%

The total does not add to 100% as multiple responses were allowed (i.e., A firm could be using the Internet for two or more reasons).

Extent of Involvement of Small Business Firms with Internet

We split firms according to the extent of involvement with Internet into five life-cycle stages of system implementation along with a preliminary information-gathering stage (see Table 2). Twenty-eight percent of the firms claimed that they were in the information-gathering stage, whereas another twenty-eight percent of the firm claimed to have fully operational web-sites. Twenty-seven percent of the firms claimed that they were either in the planning or the process of designing a web-site for business purposes. Seventeen percent of the firms in our sample were implementing or had recently implemented some kind of web-site. Based on this survey it is clear that the majority of small business firms are aware of the Internet and use it for business.

Table 2
Extent of Involvement in E-Commerce Solutions

Stage of Life Cycle	Percentage
1. Information Gathering	28%
2. Planning	17%
3. Design	10%
4. Implementation	14%
5. Testing	3%
6. Fully Operational	28%

FACTORS INFLUENCING ENTREPRENEURS' ATTITUDES TOWARDS INTERNET

The key findings of the section of the paper are reported in Table 3 and Table 4. As mentioned earlier, this was an exploratory study; and we did not have specific hypothesis with respect to variables used and relationships tested. We were interested in finding what factors affected an entrepreneur's perception of the Internet. Based on judgement (albeit a non-scientific procedure) we chose the following variables: environmental dynamism; complex differentiation (to capture the strategy of the firm); sales; and business performance of the firm. Table 3 reports the findings of the regression analysis and table 4 provides the descriptive statistics and correlations for the variables used in this study. The regression model used explains about 50% of the variance in the attitudes held by entrepreneurs towards Internet [R^2=.498, p<.05]. Of the four independent variables studied, three of them were related positively to the attitudes held by the entrepreneur, while one was negatively related towards Internet.

Table 3
Multiple Regression Results

Variable	**Standardized Regression Coefficients Attitude Towards Internet**
Environmental Dynamism	.607***
Complex Differentiation	-.461**
Business Performance	.301*
Sales	.351**
R^2	.498
F	3.467**
*** = p<.01, ** = p<.05, *= p<.10	

Environmental dynamism was strongly related to positive attitudes held by the entrepreneur towards the Internet (beta=.607, p<.01). One could infer that it is quite likely that the Internet helps entrepreneurs manage dynamic environments better. This point was made by one of the respondents in the survey who mentioned that Internet helps one better respond to the competition, as it allows you to keep tabs on rivals in the industry. Other comments made by the entrepreneurs include that the Internet has resulted in increased competition; wherein, they are forced to match price offered by rivals. Entrepreneurs of firms that have a higher performance relative to its competitors have positive attitudes about Internet (beta= .301, p<.1). Entrepreneurs of firms having higher sales also had a positive attitude towards Internet (beta=.351, P<.05). The findings of this make it apparent that entrepreneurs of large or successful firms only seem to be aware of the opportunities available through the Internet.

Table 4 Means, Standard Deviations, and Correlations						
Variables	**Mean**	**Std Dev**	**1**	**2**	**3**	**4**
Environmental Dynamism	13.06	3.9.34	1			
Innovation Strategy	23.517	7.1445	.225	1		
Business Performance	9.642	2.655	-.317	.095	1	
Sales	704454	135400	-.250	.003	.133	1
*** = p<.01, ** = p<.05						

One of the surprises of this study was that we found a negative relationship between complex differentiation strategy and entrepreneurs' attitudes towards Internet (beta= -.461, p<.05). Even though not formally stated, when we included this variable it was our expectation that a firm pursing this strategy will be attracted to the Internet as it might allow further differentiation. The contrary findings led us searching for reasons. One possible explanation is that firms pursuing a differentiation are satisfying their target customers through other means and that they feel there is no need to invest in E-Commerce. Another explanation could be induced from the comment made by an entrepreneur that "the type of customers who shop through the web look for low cost irrespective of quality". If this was the case, one could understand that the firms following a complex differentiation strategy would be at a disadvantage as it is hard to show the uniqueness of a product/service in digital media (to justify a higher price).

CONCLUSION

A majority of small business firms surveyed have chosen to exploit the Internet for business advantages. A significant number of the firms surveyed felt the Internet helped in promoting their business. The advantages gained by entrepreneurs are summarized in Table 5 (based on the responses to the open-ended question in the questionnaire).

Table 5
Advantages Claimed by Entrepreneurs Using the Internet

	Benefits
1.	Helps develop initial contacts.
2.	Enhances image -- many customers do not realize they are dealing with a small firm.
3.	Increases the scope of geographic market area served.
4.	Helps in entering a market segment not considered before.
5.	Inexpensive marketing tool with lower operating cost
6.	Increases sales.
7.	Keeps the store open 24 hours and seven days of the week.
8.	Less time spent on the phone since opening the web site.
9.	Serves as a quick reference tool for customers on products sold.
10.	Allows the firm to tap segments that were not possible before.
11.	Reduces foot traffic in the shop allowing for better service to customer at the shop.
12.	Provides easy research on suppliers and competitors.
13.	

Despite the impressive list of benefits small firms have gained through effective use of the Internet, one also need to express certain words of caution. For instance, one of the respondents commented on the survey, “we have had two web-sites for the past three years but only one customer ordered through the web so far”. One other entrepreneur cautioned that there is significant pressure on small business to be on the Internet, "whether beneficial or not" and great restrain be exercised by firms before getting into the fray due to the risk involved. Similar words of caution were expressed by another entrepreneur that the Internet would have "very little impact on outcomes" for many small businesses.

Stated briefly, this survey indicates a majority of small business entrepreneurs are aware of and adapting to the digital world. This impact of the Internet on small business has been varied across industries.

Eighty percent of entrepreneurs use the Internet in day-to-day business activities. The extent of usage of the Internet varied widely from firm to firm.

Twenty percent of the entrepreneurs surveyed do not use the Internet at all. One entrepreneur summed the opinion of those firms that choose not to use Internet in two words, "Don't apply".

Entrepreneurs who were operating in dynamic environments had positive attitudes toward the Internet. Entrepreneurs of firms following complex differentiation strategy have negative attitudes towards the Internet. Among small firms, entrepreneurial attitude towards Internet is more favorable with larger and successful firms in the industry.

Based on entrepreneurial comments, our current understanding is that small businesses who have modest goals like promoting goods/services through the Internet have had the greatest success. Small business firms, who planned to use to the Internet to full capability (e.g., ordering taking, business process automation, paper work reduction, etc.,) have been less successful if not totally failing in achieving its goals.

This study's primary goal was to understand the impact of Internet on small business entrepreneurs. In conclusion the following comments can be made about the impact of Internet on small businesses based on this survey.

We close this paper with a comment made by one of the entrepreneurs who recommends that a small firm should get involved with the Internet but modestly as, "the Internet is yet to be used to full potential -- but that's good -- because we need to walk before we run".

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RATE OF BUSINESS FAILURES: AN ANALYSIS OF THE DETERMINANTS

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ABSTRACT

The prospect of business failure is of significant concern to the entrepreneur as a number of findings suggest that many new businesses end in failure. While there has been speculation about how and which factors are related to business failure, little systematic work has been done to tease apart the various factors which potentially impact business failure. Based on annual data compiled from 1959 to 1996, we use regression analysis to relate business failures to the unemployment rate of experienced wage and salary workers, the gross domestic product, the Federal funds interest rate, and the ratio of profits after Federal income taxes to stockholders' equity for all manufacturing corporations. Moreover, we examine the long-run, as well as the short-run, impact of the determinants of business failures and suggest that many business ventures end in failure because of "outside" economic factors rather than problems specific to the manager.

INTRODUCTION

Business failure has long been recognized as among the most serious issues confronting small business. A prospective entrepreneur faces daunting odds – the typical new business ends in failure (Lane & Schary, 1991). In fact, widespread discussion recently has evolved into a robust advice and analytical industry devoted to defining and describing the characteristics and expertise required of small businesses. Specifically, entrepreneurs are advised to undertake prescribed procedures to decrease the likelihood of failure (Gerber, 1998; 1999).

Why do so many small business failures occur and what can be done to prevent them? Indeed, *can* business failures be prevented? Much of the discussion in the entrepreneurship literature focuses upon the individual entrepreneur and factors such as managerial inexperience, poor planning, inadequate cash reserves, and the like (see Dun & Bradstreet, April 21, 1999; U.S. Small Business Administration, 1998). To the extent that such factors are the primary determinant of business failure, better preparation of the prospective entrepreneur could do a great deal to prevent these closings (Lussier, 1996). Supporting this argument are situations where an increase in business failures follows from an increase in the number of new firm start-ups. For example, the rate of business failures increased dramatically in the mid-1980s, a time which marks the longest continuous expansion in the United States' economy since World War II and a period of exceptionally heavy new business expansion.

However, there is an equally compelling argument that business failures may result from economic factors which are operating at much more macro levels and which may be completely out of the hands of the entrepreneur. The general public, and many entrepreneurs as well, have come to associate the rate of business failures with the overall strength of our economy. Stemming from experiences such as the heavy rate of failures accompanying the Great Depression, there has been a widespread belief that an increase in business failures is indicative of a weakness in the economy. If this is the case, the connection between business failures and recessions is probably causal, with a poor economy causing failures, for example, and increasing failures fueling further economic problems. Where economic factors are primary contributors, the entrepreneur may have much less control of the issues leading to failure.

In this study, we look specifically at economic factors and attempt to determine how closely they relate to business failure. Specifically, we develop regression models which use economic factors to explain the rate of business failure. To the extent that economic factors account for a large proportion of the variance in the failure rate, we maintain that it is these factors, and not primarily managerial factors, which account for the high rate of small business failure. We next consider how the literature has considered these factors.

UNDERSTANDING BUSINESS FAILURES: MANAGERIAL VS ECONOMIC FACTORS

What exactly are business failures? Dun and Bradstreet (1998) (which is considered the primary source of data on the business failure rate) defines business failures as those businesses that ceased operation following assignment or bankruptcy. Similarly, Archibald and Baker (1988) define business failures as "firms that cease to exist and leave unpaid debts" (p. 221). Lane and Schary (1991) report that "business failures are either the exit of businesses involved in court proceedings or the exit of business by voluntary actions involving losses to creditors" (p. 95).

What *causes* the failures? In 1971, Altman concluded that at least 90 percent of business failures were due to internal sources such as incompetence, neglect, and a lack of experience. Likewise, Platt (1985) found that 88 percent of business failures in 1981 could be attributed to insufficient line experience, inadequate managerial expertise, and incompetence, and DiBernardo (1999) reported similar findings in a survey conducted in 1999 for Dun and Bradstreet. As noted, increased numbers of business startups during economic expansion, as occurred in the mid-1980s, might also lead to accelerated rates of business failures. Moreover, Phillips and Swain (1985) indicated that much of this phenomenon probably relates to managerial inexperience and inadequate financing rather than economic conditions. Certainly, these ideas suggest factors which are unrelated to economic conditions.

Nevertheless, there are many suggestions which focus on more macro-level causes of business failures. Archibald and Baker (1988) concluded that determinants of business failures include weaknesses in companies' balance sheets and Federal credit activities such as errors in aggregate net revenue and credit availability. Furthermore, Williamson (1987) reported that high unemployment and a rise in the number of loans can be associated with an increase in the rate of business failures.

In this study we present a somewhat distinctive approach to the process of examining causes of business failure. Instead of the more conventional approaches, which tend to concentrate on internal causes, our focus is upon the relative strength of key macro-level economic factors -- the unemployment rate, the gross domestic product, the Federal funds interest rate, and the ratio of profits to stockholders' equity -- to determine their impacts upon business failures. We also examine both the long-run and short-run impact of these potential determinants of business failures.

METHODS

In this study, we report results for a model incorporating five potential determinants of the rate of business failures. Our model is expressed below.

We expect that BFAIL will be positively associated with UR2 and INT and negatively correlated with GDP and PROF. Our discussion of economic impacts suggests that it is reasonable to suppose, for example, that as the unemployment rate increases, the rate of business failures also will grow (Williamson, 1987). The sign for interest rates (INT) is expected to be positive because as needed capital becomes increasingly difficult to acquire, business failures are expected to increase. On the other hand, the sign of GDP is expected to be negative because as the gross domestic product multiplies, business failures can be expected to decline.

Similarly, as business profits increase, the rate of business failures can be expected to decrease.

BFAIL = f(UR2, GDP, INT, PROF, BFAIL1)

where

BFAIL = the business failure rate per 10,000 listed enterprises;
UR2 = the unemployment rate which includes only experienced wage and salary workers
GDP = the gross domestic product
INT = the Federal funds interest rate
PROF = the ratio of profits after Federal income taxes to stockholders' equity for all manufacturing corporations
BFAIL1 = ($BFAIL_{t-1}$) the lagged dependent variable which expresses the long-run impact of the right-hand-side variables.

DISCUSSION

Sample

Our sample consisted of annual observations from 1959 to 1996. A lagged dependent variable was used, thus reducing the number of observations employed in calculations by one. The data was collected from *The Economic Report of the President* (1998) and is displayed in Appendix A.

Regression

Before continuing the discussion, the issue of functional form of the regression model should be addressed. Several possible functional forms of regression, including linear, double-log, and semi-log were available and were tested. While both semi-log regressions had significant intercepts, one semi-log regression had a negative intercept and the other regression had many insignificant right-hand-side variables. Because the significance of the determinants vary depending upon the model presented, both the linear form and the double-log form will be presented in this paper. In this study, we use regression analysis, treating our proposed factors as independent variables and business failure as our dependent variable.

Linear Regression

The estimated regression and relevant statistics are reported in Table 1. As shown below, approximately 91 percent of the variation in the rate of business failures can be explained by the five right-hand-side variables. No autocorrelation was found to exist, and the linear regression as a whole was significant at the one percent level. Moreover, all of the coefficients have the expected signs. It should be noted that unemployment rate was significant at the five percent level, interest rate was not significant (10 percent level), and the ratio of profits to stockholders' equity was significant at the one percent level. Interestingly, it was found that in the linear model, gross domestic product was not significant (10 percent level).

Table 1 is generally in line with our expectations. Based on the parameter estimates, if UR2 were to rise by one, the rate of business failures should grow by about 2.468. Likewise, if the interest rate were to increase by one, BFAIL should also increase by about 1.117. Conversely, if PROF were to rise by one, the rate of business failures should decrease by approximately 1.788. The intercept of 11.437 suggests that even if all of the right-hand-side variables were equal to zero, the rate of business failures would still be equal to about 11.437. This finding supports the arguments raised earlier that factors other than the economy are contributors to business failure. Note, however, that the high R^2 for our equation indicates that only about 9 percent of the variance, at best, could be explained by such factors. The lagged dependent variable (BFAIL1) indicates that the long-run impact of the right-hand-side variables is about eight times greater than the short-run impact.

TABLE 1 LINEAR REGRESSION FOR THE RATE OF BUSINESS FAILURES		
Variable	**Coefficient**	**t-ratio**
Intercept	11.437162	1.090
UR2	2.467815*	2.061
GDP	-1.068153	-1.457
INT	1.116781	2.028
PROF	-1.787633**	-3.156
BFAIL1	0.875465**	16.789
Adjusted R^2	0.9144	
* = significant at the 5% level; ** = significant at the 1% level		

Double-Log Regression

The estimated double-log regression and relevant statistics are reported in Table 2. As shown below, approximately 91.5 percent of the variation in the rate of business failures can be explained by the five right-hand-side variables. No autocorrelation was found to exist, and the double-log regression as a whole was significant at the one percent level. All of the coefficients have the expected signs. It should be noted that the log of the gross domestic product could not be taken because the GDP contained negative numbers. The log of the unemployment rate was not significant (10 percent level), the gross domestic product was significant at the one percent level, and the log of the ratio of profits to stockholders' equity was not significant (10 percent level). Interestingly, we note that in the double-log model, the log of the interest rate also was not significant (10 percent level).

TABLE 2 DOUBLE-LOG REGRESSION FOR THE RATE OF BUSINESS FAILURES		
Variable	Coefficient	t-ratio
Intercept	0.319851	0.949
LUR2	0.185771	1.854
GDP	-0.031247**	-2.762
LINT	0.088761	1.630
LPROF	-0.130835	-1.741
LBFAIL1	0.908193**	17.329
Adjusted R^2	0.9167	
* = significant at the 5% level; ** = significant at the 1% level		

Table 2 suggests that if UR2 were to rise by one percent, the rate of business failures would grow by around 0.186 percent. Conversely, if PROF were to rise by one percent, LBFAIL would decrease by approximately 0.131 percent, and if GDP were to increase by one, LBFAIL would decrease by about 0.031. Even if all of the right-hand-side variables were equal to zero, the log of the rate of business failures would be equal to approximately 0.320 percent. The log of the lagged dependent variable (LBFAIL1) indicates that the long-run impact of the right-hand-side variables is approximately 10.5 times greater than the short-run impact.

One very important observation is that in the linear regression, GDP is not significant and the interest rate is not significant (10 percent level). However, in the double-log regression, GDP becomes significant at the one percent level while INT is not significant. When the stepwise procedure was performed for the double-log regression, LBFAIL, GDP, and LUR2 were listed as the three best right-hand-side variables. The stepwise procedure was then performed for the linear regression. The variables BFAIL1, UR2, PROF, and INT emerged as the four most important determinants. Consequently, an additional test, the Jp test, was used to help determine the final prediction error (SAS Institute, Inc., 1989). When the Jp test reveals a low or minimum value, it is used because it suggests the "best" model (Hocking, 1976). In this study the Jp test was performed for both the linear and the double-log regressions. In both instances, the lowest Jp number was found using all five independent variables. It is, therefore, reasonable to include all five right-hand-side variables in both regressions.

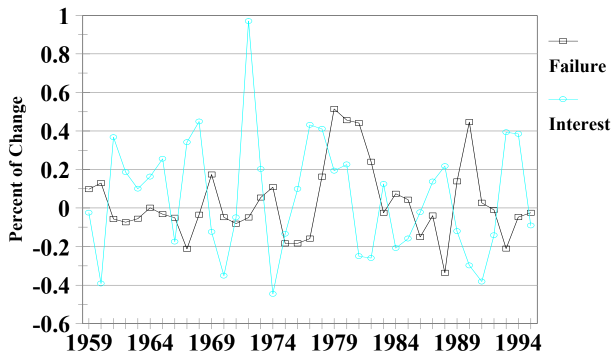
Three other variables were considered and tested. The first was the unemployment rate, which included all civilian workers (UR1). It was used as a substitute for UR2. The use of this variable was found to be less significant than the unemployment rate of experienced wage and salary workers because UR1 also includes teenage workers whose employment is probably not closely related to the issues under study in this research. The other two variables considered were the composite New York Stock Exchange index (NYSE) and Standard and Poor's composite index (SP500). Originally we speculated that a stock price index would be a significant determinant of the rate of business failures. The signs of both of these variables were expected to be negative. When the data were analyzed, however, the parameter estimates for both variables were positive. Additionally, using either of these variables in the statistical analysis caused the signs to change for other independent variables. Therefore, we determined that it was necessary to perform the Klein's test. The Klein's test requires that the adjusted R^2 of the main regression be computed and compared to all of the adjusted R^2 of the auxiliary regressions. If the adjusted R^2 main < adjusted R^2 auxiliary for any of the comparisons, it indicates that multicollinearity is serious (McClave, Benson, & Sincich (1998). In this instance when the Klein's test was performed, a serious multicollinearity problem was confirmed to exist. Incorporating this data and other information we obtained from the various statistical analyses, we concluded that stock indices simply appear to provide a redundant measure of one or more of the five factors under study.

SUMMARY AND CONCLUSIONS

This study has examined a series of macro-level economic determinants of the rate of business failures. Based on annual data compiled from 1959 to 1996, business failures can be connected to the unemployment rate of experienced wage and salary workers, the gross domestic product, the Federal funds interest rate, and the ratio of profits after Federal income taxes to stockholders' equity for all manufacturing corporations. This study also found that in the years preceding an increase/decrease in the rate of business failures, the interest rate also increased/decreased correspondingly (see Figure 1). The data show that when interest rates change in year one, the rate of business failures usually change either in years two or three. There appears to be a lag period between the change in interest rates and the change in business failure rates (see Appendix B).

Interest rates, therefore, have a predictive quality or characteristic in relation to the rate of business failures. In addition, the value of the lagged dependent variable, BFAIL1, demonstrates that the long-run effect of the right-hand-side variables as well as the short-run impact of these variables should be understood and recognized. The value of the adjusted R^2 for both the linear and double-log regressions is slightly greater than 91 percent, which indicates that other potential explanatory variables should be considered, but that by far the most significant impact is from macro-level economic factors.

Figure 1
Rates of Interest and Business Failure



What are the implications for the entrepreneur? We interpret these findings as indicating that managerial problems may represent a far less important issue in business failure than has been assumed in many instances. Of course, we are not by any means suggesting that managerial issues are unimportant or that solid management is unnecessary to the entrepreneur. Undoubtedly, solid management permits many small businesses to survive in difficult economic periods. Instead, we see these findings as highlighting the importance of economic factors and the need for the entrepreneur to be keenly aware of the strategic risks posed by economic factors. The management literature has historically emphasized the need for the manager to serve as a "boundary spanner," monitoring the environment to permit the organization to move quickly to respond to both opportunities and challenges posed by the environment. Our results indicate that this advice may be doubly needed by the entrepreneur!

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Appendix A

YEARS	BFAIL	UR2	GDP	INT	PROF
1959	51.9	5.7	7.4	3.30	10.4
1960	57.0	5.7	2.4	3.22	9.2
1961	64.4	6.8	2.3	1.96	8.9
1962	60.8	5.6	6.1	2.68	9.8
1963	56.3	5.6	4.3	3.18	10.3
1964	53.2	5.0	5.8	3.50	11.6
1965	53.3	4.3	6.4	4.07	13.0
1966	51.6	3.5	6.5	5.11	13.4
1967	49.0	3.6	2.5	4.22	11.7
1968	38.6	3.4	4.7	5.66	12.1
1969	37.3	3.3	3.0	8.20	11.5
1970	43.8	4.8	0.1	7.18	9.3
1971	41.7	5.7	3.3	4.66	9.7
1972	38.3	5.3	5.5	4.43	10.6
1973	36.4	4.5	5.8	8.73	12.8
1974	38.4	5.3	-0.6	10.50	14.9
1975	42.6	8.2	-0.4	5.82	11.6
1976	34.8	7.3	5.4	5.04	13.9
1977	28.4	6.6	4.7	5.54	14.2
1978	23.9	5.6	5.4	7.93	15.0
1979	27.8	5.5	2.8	11.19	16.4
1980	42.1	6.9	-0.3	13.36	13.9
1981	61.3	7.3	2.3	16.38	13.6
1982	88.4	9.3	-2.1	12.26	9.2
1983	109.7	9.2	4.0	9.09	10.6
1984	107.0	7.1	7.0	10.23	12.5
1985	115.0	6.8	3.6	8.10	10.1
1986	120.0	6.6	3.1	6.81	9.5
1987	102.0	5.8	2.9	6.66	12.8
1988	98.0	5.2	3.8	7.57	16.1
1989	65.0	5.0	3.4	9.21	13.6
1990	74.0	5.3	1.2	8.10	10.7
1991	107.0	6.6	-0.9	5.69	6.3
1992	110.0	7.2	2.7	3.52	2.2
1993	109.0	6.6	2.3	3.02	8.1
1994	86.0	5.9	3.5	4.21	15.9
1995	82.0	5.4	2.0	5.83	16.1
1996	80.0	5.2	2.8	5.30	16.8

Appendix B: Percentage Change in Interest Rates vs Business Failure Rates

Years	Interest Rate	Failure Rate	% Change in Interest	% Change in Failure
1959	3.30	51.90	-0.02424	0.09827
1960	3.22	57.00	-0.39130	0.12982
1961	1.96	64.40	0.36735	-0.05590
1962	2.68	60.80	0.18657	-0.07401
1963	3.18	56.30	0.10063	-0.05506
1964	3.50	53.20	0.16286	0.00188
1965	4.07	53.30	0.25553	-0.03189
1966	5.11	51.60	-0.17417	-0.05039
1967	4.22	49.00	0.34123	-0.21224
1968	5.66	38.60	0.44876	-0.03368
1969	8.20	37.30	-0.12439	0.17426
1970	7.18	43.80	-0.35097	-0.04795
1971	4.66	41.70	-0.04936	-0.08153
1972	4.43	38.30	0.97065	-0.04961
1973	8.73	36.40	0.20275	0.05495
1974	10.50	38.40	-0.44571	0.10938
1975	5.82	42.60	-0.13402	-0.18310
1976	5.04	34.80	0.09921	-0.18391
1977	5.54	28.40	0.43141	-0.15845
1978	7.93	23.90	0.41110	0.16318
1979	11.19	27.80	0.19392	0.51439
1980	13.36	42.10	0.22605	0.45606
1981	16.38	61.30	-0.25031	0.44209
1982	12.28	88.40	-0.25977	0.24095
1983	9.09	109.70	0.12541	-0.02461
1984	10.23	107.00	-0.20821	0.07477
1985	8.10	115.00	-0.15926	0.04348
1986	6.81	120.00	-0.02203	-0.15000
1987	6.66	102.00	0.13664	-0.03922
1988	7.57	98.00	0.21664	-0.33673
1989	9.21	65.00	-0.12052	0.13846
1990	8.10	74.00	-0.29753	0.44595
1991	5.69	107.00	-0.38137	0.02804
1992	3.52	110.00	-0.14205	-0.00909
1993	3.02	109.00	0.39404	-0.21101
1994	4.21	86.00	0.38480	-0.04651
1995	5.83	82.00	-0.09091	-0.02439
1996	5.30	80.00	-------------	-------------

ARE THE COMMON MYTHS OF ENTREPRENEURSHIP ALL THAT COMMON? A TEST OF ENTREPRENEURS AND NON-ENTREPRENEURS

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ABSTRACT

It has been suggested that there is general misunderstanding in the business and academic communities as to the definition, form, and substance of entrepreneurship. Common myths of entrepreneurship have been advanced such as "Entrepreneurship involves starting and running a small business" and "Entrepreneurship requires a lot of money." A sample of 163 subjects revealed overall disagreement with the stated myths. Evidence supported a hypothesized divergence of opinion about entrepreneurship myths between entrepreneurs and non-entrepreneurs, but there was no difference of opinion between less successful and more successful entrepreneurs. Implications of the findings are discussed.

INTRODUCTION AND BACKGROUND

As economies expand and develop globally, entrepreneurial activity is seen as a cornerstone of the developmental process, whether by new, start-up firms or by new ventures from within existing firms. Morris (1998) boldly claims that we have entered the "Age of Entrepreneurship." A recent survey revealed that 80% of the opinion leaders questioned believe that entrepreneurship will be the defining business trend in the next century. Factors identified as driving the trend include technology advancements, a high growth/low inflation economy, social factors, globalization of economies, large companies' inability to adapt, and government deregulation (Carey & Tian, 1998).

Entrepreneurs' challenges are different from those encountered by the prototypical manager. Bhide (1996) suggests that the issues entrepreneurs face every day would overwhelm the typical manager. Entrepreneurs frequently operate without the "safety net" possibly afforded managers in traditional organizations. They are often forging into uncharted competitive and technological territories with little if any history to act as guideposts. There is probably agreement in the general population that entrepreneurship is defined in terms of assumption of risk, innovation, and an ability to create and manage change. Academicians and business people alike identify certain elements of entrepreneurial skill as a requisite component of viable company strategy. Entrepreneurship is key to the creation of new business models; that is, novel business forms, products/services and/or delivery systems. Internet-based companies such as Yahoo! and Amazon.com are good examples of new business models. Gardner and Gardner (1999) identify "visionary entrepreneurship", converting what was once seen as impractical dreams into tangible powerful businesses, as a requirement for building great companies.

As important and pervasive as entrepreneurship is today, there may be disagreement or misconception as to what truly constitutes entrepreneurship. Pitt (1998) suggests that entrepreneurship is in danger of becoming yet another "buzzword," popularized yet bastardized by the popular press, consultants, and entrepreneurs themselves. Pitt observes "entrepreneurial" descriptions applied to issues and objects as diverse as competitive strategy, performance potential observed in children, and leadership. Morris (1998) suggests that entrepreneurship is a concrete, measurable, and essential phenomenon for individual, organizational, and societal success. He eschews the traditional conceptualizations of entrepreneurship as vague and replete with popular myths and misunderstandings. He further argues that virtually everyone has entrepreneurial potential and that unleashing this potential can positively affect one's environment to make meaningful, significant contributions. He introduces the concept of "entrepreneurial intensity" as the strength and frequency of entrepreneurship, conceptualized and operationalized on a continuous scale across all levels of analysis. Morris provides a framework that explains, among other things, the influences on the entrepreneurial process (including misconceptions or myths) and the importance and pervasiveness of entrepreneurship in everyone's lives.

In building his argument and evidence for the entrepreneurial intensity construct, Morris begins by identifying and defining what he believes to be 13 common myths of entrepreneurship. These myths, individually and collectively, contribute to the general misunderstanding of what he believes constitutes entrepreneurship. He also suggests that these common myths may negatively influence would-be entrepreneurs by giving a false impression of the nature of entrepreneurship. He then integrates the 13 myths throughout the remainder of his book as he skillfully builds his conceptualization of entrepreneurial intensity.

STATEMENT OF THE PROBLEM AND HYPOTHESES

Morris (1998, pp. 1-11] posits the following common myths of entrepreneurship:

Entrepreneurship is about starting and running a small business
Entrepreneurship is a discrete event that just "happens"
Entrepreneurship is an "Either/Or" thing
Entrepreneurship is about taking wild risks

Entrepreneurs are born
Entrepreneurship is about greed
There is only one type of entrepreneur
Entrepreneurship is about individuals
Entrepreneurship requires lots of money
Entrepreneurship is about luck
Entrepreneurship starts with a new product or service
Entrepreneurship is unstructured and chaotic
Most entrepreneurial ventures fail

In consultation with several experts in entrepreneurship, I subjectively concluded the face validity of the stated myths. Unanswered, however, was the question of whether entrepreneurs in general would agree that the stated myths are, indeed, myths. Likewise unanswered was whether non-entrepreneurs agree with the myths as stated. This would appear to be of particular importance to the argument for entrepreneurial intensity, as these presumed myths are elements on which the concept is developed. The validity of the statements as myths would also be of interest to practicing and aspiring entrepreneurs and those involved in educating and developing entrepreneurs. Therefore, I set out to determine the level of convergence and divergence of opinion between entrepreneurs and non-entrepreneurs with respect to Morris' presumed myths of entrepreneurship. One would expect entrepreneurs to more strongly disagree with the stated myths, partially confirming their status as a myth. Non-entrepreneurs, because of their limited knowledge of and experience with entrepreneurial ventures, would be expected to more strongly agree with the stated myths if they are, indeed, myths.

To address these questions, two hypotheses were formulated:

H1: Entrepreneurs (E) will more strongly disagree with the stated myths of entrepreneurship than will non-entrepreneurs (NE) as measured by the entrepreneurial myths scale (EMS).

$H1_0$: Mean $EMS_{(E)}$ = Mean $EMS_{(NE)}$

$H1_a$: Mean $EMS_{(E)} \leq$ Mean $EMS_{(NE)}$

H2: More successful entrepreneurs (MS) will more strongly disagree with the stated myths of entrepreneurship than will less successful entrepreneurs (LS) as measured by the entrepreneurial myths scale (EMS).

$H2_0$: Mean $EMS_{(MS)}$ = Mean $EMS_{(LS)}$

$H2_a$: Mean $EMS_{(MS)} \leq$ Mean $EMS_{(LS)}$

METHODS

Sample

To test these hypotheses, a survey was constructed and distributed for voluntary completion to students enrolled in two undergraduate management classes at a large southeastern university. The use of a student sample from this university seemed particularly appropriate. This non-residential university services students primarily from a large, urban and suburban population with many students working full-time and going to school part-time. The average age of the university's students is well above that of traditional, residential institutions. Also, this institution has nationally-ranked graduate and undergraduate entrepreneurship programs that attract entrepreneurs, would-be entrepreneurs, and non-entrepreneurs alike (U.S. News & World Report, 1998; Up and comers: 25 schools to watch, 1995). The United States Association of Small Business and Entrepreneurship (USASBE) recognized the institution in 1998 as a model for undergraduate entrepreneurship education.

Table 1
Continuous Variables Descriptive Statistics

Variable	n	Mean	Std. Dev.	Min.	Max.
Full-Time Work Experience (Years)	163	5.31	6.38	0	30
Part-Time Work Experience (Years)	163	4.32	2.72	0	15
Managerial Work Experience (Years)	163	2.18	3.68	0	20
Age	163	25.52	6.67	19	54
Total Work Experience (Full and Part Time)	163	9.63	6.50	1	32
Cumulative GPA	158	3.13	0.48	2.00	4.00

Table 2
Discrete Variables Frequency Distributions

Variable	Response	Frequency	Percentage
Current or Past Entrepreneur	Yes	63	38.9%
	No	99	61.1%
Success of Entrepreneurial Ventures	Very Successful	9	13.9%
	Moderately Successful	34	52.3%
	Neutral	19	29.2%
	Moderately Unsuccessful	2	3.1%
	Very Unsuccessful	1	1.5%
Likelihood of Engaging in Entrepreneurial Ventures in the Future	Very Likely	45	28.5%
	Somewhat Likely	50	31.7%
	Unsure	43	27.2%
	Somewhat Unlikely	10	6.3%
	Very Unlikely	10	6.3%

Tables 1 and 2 show select demographic and biographic data for the sample. The 163 subjects' age ranged from 19 to 54 with an average of 25.5 years. On average, subjects had almost 10 years of combined full- and part-time work experience. About 39% identified themselves as current or former entrepreneurs.

Instrument

The survey contained a total of 166 items. A small subset of these items was used to test the hypotheses reported in this paper and is presented in the appendix. Subjects received extra credit for completing the survey and were not asked to identify themselves on the survey. Confidentiality was assured. The participation rate was 99%. In the entrepreneurial myths section of the survey, subjects were told they were being asked for their opinions about entrepreneurs and entrepreneurship. They were given the following definition to guide their responses:

> *Entrepreneurship is the process through which individuals and teams create value by bringing together a unique collection of resources to take advantage of opportunities. It can occur in any organizational context and results in a variety of possible outcomes, including new ventures, products, services, processes, markets, and technologies.*

This is an adaptation of Morris' (1998, p. 16) definition of entrepreneurship as a synthesis of contemporary definitions and perspectives from the entrepreneurship literature. This definition embodies his view that entrepreneurship is defined by three key dimensions: innovativeness, risk taking, and proactiveness (Oviatt, 1999).

Subjects were then asked to indicate their agreement or disagree with each of the stated 13 myths of entrepreneurship. The 13 myths, as listed earlier, were selected and presented on the survey in random order. Responses were indicated on a 5-point Likert-type scale with verbal anchors—1=Strongly Disagree; 2=Disagree; 3=Neutral; 4=Agree; and 5=Strongly Agree. Three items were selected at random and restated in the opposite and then reverse scored for analysis. These three items (numbers 6, 10, and 11) are presented in original form in Table 3 to facilitate consistent scale interpretation of the scores. Some items, as shown in Table 3, were slightly re-worded from Morris' original statements for readability and interpretation.

An entrepreneurial myths scale (EMS) score was constructed by averaging, for each subject, the numerical responses to the 13 myth statements. Subjects were also asked, using the definition of entrepreneurship stated earlier, to indicate if they considered themselves now or had ever considered themselves in the past to be an entrepreneur. Responses were indicated as either "Yes" or "No." Those who responded in the affirmative were then asked to indicate their perception of their own entrepreneurial success. All subjects were asked to indicate their perceived likelihood of engaging in entrepreneurial ventures in the future. The responses to these three items are summarized in Table 2.

RESULTS

The average response to each of the 13 stated entrepreneurial myths is shown in Table 3. Based on a 5-point scale, relatively low numbers represent disagreement with the statement, relatively high numbers represent agreement with the statement. Thus, a lower number representing disagreement with the statement suggests that the statement is perceived to be untrue.

Likewise, a higher number representing agreement with the statement suggests that the statement is perceived to be true.

Table 3
Entrepreneurial Myths Scale and Scale Items Descriptive Statistics

Item		n	Mean	Std. Dev.
EMS	*Entrepreneurial Myths Scale (Average of Individual Scale Items)*	162	2.87	0.44
1.	Entrepreneurs are "gamblers" willing to take wild risks	163	3.52	1.17
2.	Entrepreneurship starts with a new product or service	163	2.93	1.20
3.	Most entrepreneurial ventures fail	162	2.72	0.97
4.	Entrepreneurs tend to be very similar to each other	163	2.90	1.12
5.	Entrepreneurship is a fixed event that occurs at a particular point in time	163	1.93	0.97
6.	Entrepreneurship is about greed	163	2.36	0.97
7.	Entrepreneurship is mostly about luck	163	2.25	1.01
8.	Either a person **is** or **is not** an entrepreneur	163	3.07	1.25
9.	Entrepreneurs are born, not made	163	2.38	1.23
10.	Entrepreneurship is unstructured and chaotic	162	3.01	1.08
11.	Entrepreneurship requires a lot of money	163	3.58	0.99
12.	Entrepreneurs try to do as much as they can themselves, seldom relying on others	163	3.08	1.01
13.	Entrepreneurship is about starting and running a small business	163	3.55	1.09

Note: Responses were indicated on a 5 point scale with "1" representing "Strongly Disagree"and "5" representing "Strongly Agree". On the survey, Items 6, 10, and 11 were restated in the opposite and then reverse scored. They are not presented in the opposite here to aid in the interpretation of the scores.

The average EMS score of 2.87 (SD=0.44) indicates that, overall, subjects are in slight disagreement with the statements and suggests, on average, that the statements might be perceived as untrue. Individual subjects' EMS scores ranged from 1.38 to 3.92. The average of each item across subjects is more telling. Item # 5 has the lowest average score of 1.93 (SD=0.97). This indicates a relatively strong disagreement with the statement that entrepreneurship is a fixed event that occurs at a given point in time. Items 7 (entrepreneurship is mostly about luck)and 6 (entrepreneurship is about greed) have the next lowest average scores (2.25 (SD=1.01) and 2.36 (SD=0.97), respectively). Item 11 has the highest average score at 3.58 (SD=0.99). Subjects have a relatively high agreement with the position that entrepreneurship requires a great deal of money. Morris (1998) suggests that this is a myth; that entrepreneurship does **not** require a great deal of money. The second and third highest average responses were for Item 13 (entrepreneurship is about starting and running a small business — mean 3.55, SD=1.09) and Item 1 (entrepreneurs gamble by taking wild risks — mean 3.52, SD=1.17), respectively. Notice that the standard deviation across all 13 averages is fairly high, ranging from 0.97 to 1.25 (on a 5-point scale).

Table 4 shows the first-order Pearson correlation coefficients among all 13 EMS items. The strongest ($p < .001$) correlation, 0.42, is between Items 8 and 9: 'Either a person is or is not an entrepreneur' and 'Entrepreneurs are born, not made.' Also strongly correlated are Items 1 and 2, Items 5 and 7, and Items 7 and 9, each with a significant ($p < .001$) positive pairwise correlation.

Hypothesis # 1

It was hypothesized that entrepreneurs will more strongly disagree with the stated myths of entrepreneurship than will non-entrepreneurs. A 2-sample one-tail unequal variance modified t-test was used to test this hypothesis. Results are shown in Table 5. The null hypothesis is rejected in favor of the alternative and Hypothesis # 1 is supported ($p < .05$). The evidence suggests that entrepreneurs more strongly disagree with the stated myths compared to non-entrepreneurs.

Table 4
Entrepreneurship Myth Scale Items Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13
1	--												
2	0.29[a]	--											
3	.012	0.15	--										
4	-0.01	0.14	0.16[c]										
5	-0.02	0.17[c]	0.11	0.14	--								
6	0.12	0.19[c]	0.09	0.10	0.23[b]								
7	0.12	0.25[b]	0.20[b]	0.11	0.31[a]	0.19[c]	--						
8	0.09	0.08	0.13	0.13	-0.05	0.13	0.07	--					
9	0.12	0.18[c]	0.17[c]	0.12	0.09	0.12	0.27[a]	0.42[a]	--				
10	0.03	0.08	0.07	-0.06	-0.19[c]	0.18[c]	0.13	0.13	0.01	--			
11	0.13	0.03	-0.08	0.07	-0.10	0.09	0.01	0.04	0.04	0.16[c]	--		
12	0.00	0.14	0.00	0.03	0.11	0.02	-0.06	-0.03	0.15	-0.17[c]	-0.14	--	
13	0.18[c]	0.22[b]	0.08	0.04	0.06	-0.01	0.13	0.05	0.01	-0.10	0.16[c]	0.20[b]	--

a: $p<.001$ b: $p<.01$c: $p<.05$

Because the overall EMS score across groups was significant, each of the 13 scale items was compared across groups to identify which items contributed to the overall effect. Items 6, 10, and 11 were significantly different across groups with entrepreneurs giving lower ratings (i.e., higher disagreement) than non-entrepreneurs. The entrepreneurs significantly disagreed with non-entrepreneurs on the statements that entrepreneurship is about greed ($p < .01$), that entrepreneurship is unstructured and chaotic ($p < .05$), and that entrepreneurship requires a lot of money ($p < .05$). Coincidentally, these were the three items that were randomly selected and stated in the opposite on the survey and then reverse scored for analysis.

Hypothesis # 2

It was also hypothesized that more successful entrepreneurs will more strongly disagree with the stated myths of entrepreneurship than will less successful entrepreneurs. Respondents indicating their overall entrepreneurial experience as "very successful" or "moderately successful" were categorized as "more successful" for testing this hypothesis. Respondents indicating "neutral," "moderately unsuccessful," or "very unsuccessful" were categorized as "less successful." Only those respondents indicating that they were currently entrepreneurs or had been entrepreneurs in the past provided responses to their perceived entrepreneurial success (n=63).

Using a 2-sample one-tail t-test, this hypothesis was tested and the results are also shown in Table 5. The evidence is insufficient to reject the null hypothesis, suggesting no significant difference in EMS between more successful and less successful entrepreneurs.

SUMMARY AND DISCUSSION

Thirteen statements have been advanced that purport to represent common myths about entrepreneurs and entrepreneurship. I tested those statements vis-à-vis groups of entrepreneurs and non-entrepreneurs and found, overall, general disagreement with the statements. Entrepreneurs more strongly disagreed with the statements than did non-entrepreneurs. However, there was no difference in the level of disagreement between less successful entrepreneurs and more successful entrepreneurs.

Table 5 Results of Hypothesis Tests							
Hypothesis #1							
Variable	**Groups**						**T statistic**
	Entrepreneurs			**Non Entrepreneurs**			
	Mean	**SD**	**n**	**Mean**	**SD**	**N**	
EMS	2.78	0.54	62	2.92	0.35	98	1.8277 * ∮
Item 1	3.48	1.34	63	5.56	1.06	99	0.4179
Item 2	2379	1.32	63	3.02	1.12	99	1.1667
Item 3	2.66	1.09	62	2.75	0.91	99	0.5432
Item 4	2.97	1.05	63	2.85	1.17	99	-0.6603
Item 5	1.78	0.83	63	2.03	1.03	99	1.6303
Item 6	2.14	0.96	63	2.51	0.94	99	2.3651 **
Item 7	2.10	1.00	63	2.34	1.01	99	1.5317
Item 8	3.10	1.30	63	3.06	1.22	99	-0.1715
Item 9	2.43	1.30	63	2.35	1.19	99	-0.3770
Item 10	2.79	1.05	63	3.13	1.09	98	1.9536 *
Item 11	3.37	1.08	63	3.72	0.93	99	2.2077 *
Item 12	3.16	0.97	63	3.02	1.03	99	-0.8532
Item 13	3.41	1.28	63	3.64	0.95	99	1.2729 ∮
Hypothesis #2							
Variable	Groups						t-Statistic
	More Successful Entrepreneurs			Less Successful Entrepreneurs			
	Mean	SD	n	Mean	SD	N	
EMS	2.76	0.53	41	2.82	0.57	21	0.4647
**p<.01 *p<.05 ∮ Unequal variance modified t-test							

Establishing the content validity of these presumed myths presents something of a conundrum. If the statements were, in fact, generally perceived misconceptions about entrepreneurship, then this would be confirmed, in part, by a significant proportion of the population agreeing with the statements. For example, if most people equate entrepreneurship with starting and running a small business, as Morris asserts they do, then this would be a necessary yet insufficient test of validity. We would then require sufficient evidence and argument to successfully challenge the truthfulness of the statement. Thus the myth validity can be established only if we determine that a sufficient proportion of people agree with the statements that can be successfully argued as untrue.

Let us assume that Morris has successfully established the second condition of validity as discussed above. Indeed, he does present quite compelling discussions of each of the 13 assumed myths in his text. Therefore, the first condition of validity as discussed above would remain to be established. The evidence presented herein does not establish that condition. Recall that, overall, the subjects disagreed with the stated myths, just the opposite of the condition required. Can, then, we conclude that the evidence does not support these statements to be common myths about entrepreneurship?

I suggest the evidence of this study *partially* supports the validity of the stated myths. While the respondents in general did not agree with the stated myths, there was a significant difference in the level of disagreement between entrepreneurs and non-entrepreneurs. The non-entrepreneurs had higher levels of agreement with the stated myths; not agreement *per se*, but higher levels of agreement with the statements than non-entrepreneurs. As non-entrepreneurs are presumably less knowledgeable about the content and processes of entrepreneurship, we would expect them to be more strongly in agreement with the stated myths if the myths are true. Morris contends that entrepreneurs harbor the same misconceptions about entrepreneurship as non-entrepreneurs. The evidence in this study suggests that entrepreneurs are less likely to agree with the stated myths than non-entrepreneurs, suggesting that entrepreneurs have a more realistic perspective on entrepreneurship than Morris might have believed.

Of the individual myth statements, only three of the 13 differed significantly between entrepreneurs and non-entrepreneurs. A factor analysis of the EMS scale is called for to determine if the variance between groups could be narrowed to its most significant points of divergence (we did this with separate univariate tests; the multivariate factor analysis would determine joint relationship). I also suspect that the differences would be greater if the sample of non-entrepreneurs had not been selected from management classes in a well-known management and entrepreneurship institution where they likely had already had at least some exposure to entrepreneurship in other courses.

In conclusion, this study found limited support for the validity of Morris' common myths of entrepreneurship, warranting additional study to determine if the information should be integrated into the training and development of entrepreneurs as well as entrepreneurship research.

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APPENDIX A

Note: The data represented in this paper are a subset of the information collected on a 166-item workplace opinion survey. In addition to entrepreneurial myths perceptions, data were collected on locus on control, birth order, national origin, immigrant status of parents, cognitive styles, impostor phenomenon, downsizing experience, felt stress and coping skills, and work impact on family and family impact on work perceptions. The items below were used to collect the data reported in this paper.

Workplace Opinions Survey

Thank you for taking time to complete this survey. You are participating in the pre-test phase of developing a much larger, comprehensive, survey that will be completed by hundreds of practicing managers, entrepreneurs, and students. By participating, you will help us improve the quality of the survey.

This survey asks for your assessment of certain workplace behaviors and attitudes. Most questions require you to indicate your responses with check marks or by circling a letter or a number.

Try to complete all questions in one sitting. Answer the questions quickly, but try not to hurry. Don't agonize over any one question; just make a choice and move on to the others.

Remember: This is a survey, not a test—there are no "right" or "wrong" answers. All you have to do is give your honest opinion. Participating in this survey is voluntary and confidential. You are **not** asked for your name. Please do not write your name anywhere on this survey. All responses are strictly confidential and will be used for academic research only.

Thank you, again, for taking the time to complete this survey.

	Strongly Disagree				*Strongly Agree*
1. Entrepreneurs are "gamblers" willing to take wild risks	1	2	3	4	5
2. Entrepreneurship starts with a new product or service	1	2	3	4	5
3. Most entrepreneurial ventures fail	1	2	3	4	5
4. Entrepreneurs tend to be very similar to each other	1	2	3	4	5
5. Entrepreneurship is a fixed event that occurs at a particular point in time	1	2	3	4	5
6. Entrepreneurship is not about greed	1	2	3	4	5
7. Entrepreneurship is mostly about luck	1	2	3	4	5
8. Either a person **is** an entrepreneur or **is not** an entrepreneur	1	2	3	4	5
9. Entrepreneurs are born, not made	1	2	3	4	5
10. Entrepreneurship is structured and well-organized	1	2	3	4	5
11. Entrepreneurship does not require a lot of money	1	2	3	4	5
12. Entrepreneurs try to do as much as they can themselves, seldom relying on others	1	2	3	4	5
13. Entrepreneurship is about starting and running a business	1	2	3	4	5

Do you now, or have you ever in the past, considered yourself to be an entrepreneur?

☐ Yes ☐ No

If you answered "Yes" to the question above, how successful do you consider your entrepreneurial experience overall?

(If "No" leave blank)

- ☐ Very Successful
- ☐ Moderately Successful
- ☐ Neutral
- ☐ Moderately Unsuccessful
- ☐ Very Unsuccessful

How likely are you to engage in any entrepreneurial ventures in the future?

- ☐ Very Likely
- ☐ Somewhat Likely
- ☐ Unsure
- ☐ Somewhat Unlikely
- ☐ Very Unlikely

How many years of managerial work experience do you have? _______ years

How old are you? _______ years

What is your current cumulative grade point average? _______

How many years of full-time work experience do you have? _______ years

How many years of part-time work experience do you have? _______ years

FRAUD: A CONCOMITANT CAUSE OF SMALL BUSINESS FAILURE

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ABSTRACT

This paper presents evidence to support a new perspective: the majority of small businesses fail because of fraud. Fraud occurs in small firms at 100 times the rate for large firms, and the overwhelming majority of frauds are committed by honest employees who have a perceived need, recognize an opportunity, perceive the probability of detection as low, and have the ability to rationalize their behavior. The authors present a plan for dramatically reducing fraud; one which does not increase costs or rely upon accountants, and which can be implemented by any small business. The best deterrence to fraud is fear of social sanction: i.e., the loss of the respect of one's peers. The proposed plan creates a climate in which these sanctions will prevail.

INTRODUCTION

Small business failure is one of the most serious economic problems in the United States. If one had the solution to the problem, one would have the power to wipe out unemployment, revitalize downtown areas, eliminate trade deficits, and give the economy such a boost that it would carry the nation into the *third* millennium, all with a single wave of the magic wand. No one has such a solution, but that may be because no one is willing to recognize the cause. The study of small business failure has been so institutionalized, that the causes of failure have become clichés: managerial incompetence, undercapitalization, etc. These antecedents of failure are so endemic to the process of entrepreneurship that they appear to be insoluble.

What if the traditional perspective is flawed? What if there is another factor which has gone unrecognized and which actually precipitates the majority of small business failures? What if this factor is not only vulnerable, but soluble? If so, then everything changes and small business failure is no longer a sad, but inevitable fact of entrepreneurial life; it is a plague which can be attacked, mitigated, perhaps even eliminated.

This paper will present a new perspective of small business failure: the majority of small businesses fail because of fraud. The authors will examine the traditional perspective and present evidence to support their position. The paper will close with a plan for dramatically reducing fraud in a small business setting; a plan which does not drive up costs or rely upon accountants and auditors, and a plan which can be implemented by any small business owner.

LITERATURE REVIEW

Hambrick and D'Aveni (1988) found that the process of failure in large corporations is a long downward spiral. Perhaps that conclusion is true for large businesses, but small businesses do not follow the time frame of a multi-million dollar company, but rather they experience failure swiftly and finally. Among the studies which support the more cataclysmic nature of small business failure is Venkataraman, Van de Ven, Buckeye, and Hudson (1990) who identified ten companies which developed educational software and followed their progress from 1983 to 1984, a year of turbulence within the computer industry. Six of the ten companies experienced cash flow problems during that time period, and 40% obtained new equity or long-term debt during 1984, although the additional capital did not usually solve their cash flow problems. All six firms underwent dramatic turnarounds, and the study concluded, at least for small firms operating in a turbulent environment, that failure is catastrophic, not downward spiraling.

One of the primary reasons for sudden failure is the smallness of the firms themselves. Bradley and Rubach (1999) suggested that the liability of smallness, in fact, carries its own potential for failure as smallness translates into a lack of sufficient financial resources. They found that leveraging had a negative effect on business success, and demonstrated that the majority of small firms borrow substantial sums to operate their businesses.

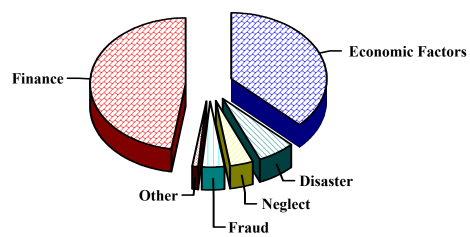
The inescapable conclusion is that small firms, by their very nature, have shallow pockets and high debt levels. Consequently, small business failure is meteoric. In our view, this is one of the primary reasons that the phenomenon is misunderstood: it happens so fast that almost no one knows what caused the collapse.

The traditional view is quite different. A number of studies of the phenomenon have been conducted and their findings are well known among entrepreneurship researchers. Some of the more salient contributors to failure which researchers have identified include cash crises (Dun & Bradstreet, 1981), inability to manage rapid growth and change (Hambrick & Crozier, 1985), lack of experience to deal with turbulence in the specific industry (MacMillan, Siegel, & Subba Narasimha, 1985; Vesper, 1980; Cooper & Bruno, 1977; Wyant, 1977) an incomplete startup team (Roure & Maidique, 1986), inadequate pre-start-up and post-start-up planning by the entrepreneurs (Robinson & Pearce, 1983; Chambers & Golde, 1963; Trow, 1961; Christensen, 1953; Woodruff & Alexander, 1958), a lack of motivation and commitment (Van de Ven, Hudson, & Schroeder, 1984), improper choice of niche strategy (Khan & Rocha, 1982), the lack of legitimacy (Singh, Tucker & House, 1986), an increase in the level of competitiveness in the niche (Roure & Maidique, 1986), and the volatility of the business cycles (Carroll & Delacroix, 1982).

The most pervasive factors in small business failure may be undercapitalization and record keeping. In a study of twenty-six

(26) paired firms, thirteen (13) designated as successful and thirteen (13) designated as unsuccessful, Duchesneau and Gartner (1990) found that the less successful firms tended to be undercapitalized. Lussier (1996) found that businesses which start from an undercapitalized position have a greater chance of failure than firms that start with adequate capital, and that businesses which do not keep updated and accurate records and which do not use adequate financial controls have a greater chance of failure than those that do. Of the twenty-two (22) studies which he cites as comparable studies, eight identified both capital and record keeping/financial control as factors related to failure (Bruno, Leidecker, & Harder, 1987; Dun & Bradstreet, 1995; Flahvin, 1985; Lauzen, 1985; Reynolds, 1987; Reynolds & Miller, 1989; Vesper, 1990; Wight, 1985). Gaskill, Van Auken and Manning (1993) and Wood (1989) also cited record keeping as a variable predictive of failure. Bradley and Rubach (1999) noted that the failure to keep records current was a factor in 35% of the collapses they studied; an error which others have recognized as a contributor to small business failure (Hodgetts & Kuratko, 1998; Argenti, 1976).

Exhibit 1
Causes of Business Failure



In short, the traditional thinking about business failure suggests that most problems are a function of managerial, financial or economic problems. Fraud plays but a minor role in the general understanding. Exhibit 1 displays one well established perspective of business failures (Dun & Bradstreet, 1993). As the graph shows, fraud in the traditional perspective accounts for less than 4% of business failures.

THE FRAUD EPIDEMIC

Fraud is defined by Black's Law Dictionary as:

> *"All multifarious means which human ingenuity can devise, and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of the truth. It includes all surprise, trick, cunning, or dis-sembling, and any unfair way which another is cheated" (Black, 1979, 468).*

Applying that definition to business activities, one finds that fraud is the primary factor in *white collar crime*. Edwin Sutherland, who coined the term *white collar crime* in 1939, used it to mean the criminal acts of corporations and individuals acting in their corporate capacities (Wells, 1997). These acts almost always involve fraud.

White collar crime may be the most serious and yet most the most under-recognized problem in the United States today, especially for small businesses. One of the best estimates of fraud losses ever prepared suggests that the average business in America loses six percent of gross revenues to fraud (Wells, 1997, p. 35). If we apply that ratio to the United States Gross Domestic Product, then annual fraud losses exceed *$400 billion*. That sum is vastly larger than the total budget for the Department of Defense. Furthermore, the annual losses are growing. If the estimate is even remotely accurate, consider the impact on American firms, especially small firms. First, losses on that scale greatly impede competitiveness, especially with foreign competitors. Secondly, such losses contribute to declines in efficiency and effectiveness, leading to lay offs and downsizing. Third, losses of this magnitude mean that prices are dramatically overstated throughout the economy. Finally, such losses mean an increase in the failure rate, especially for small and start up firms.

Crime has been present in our society since the beginning of time, however, in recent years, there has been an increasing trend toward white collar crime. In fact, the cost of insurance fraud alone is estimated at over $100 billion per year (Beddingfield, Hawkins, Ito, Lenzy & Loftus, 1996). The number of investment fraud cases pursued by the Securities and Exchange Commission has risen 60% in the past five years (Beddingfield, et al., 1996). Clearly, the scale of the problem is staggering. It dwarfs the financial losses from all other sources of crime.

The situation may well worsen. In a recent television interview, Salvatore, Sammy the Bull, Gravano, the former second in command to John Gotti, former top mafia godfather in the United States, discussed the changes in the modern mafia. The old mafia, trafficking in drugs, prostitution, gambling and racketeering is rapidly changing. The new mafia elite are specialists in fraud, embezzlement, and white collar crime (Gravano, 1997). Thus, the new mafia is recognizing how much easier and more lucrative it is to steal with a computer than with a gun. With the mafia entering the scene, one can expect other professional criminals to follow their lead. If losses have been so great when amateurs were the primary culprits, consider how much more serious the problem will become with professionals leading the way.

Just how much employee fraud occurs in the United States? Determining the actual amount of fraud is impossible because it is a crime which is seldom reported and even more infrequently prosecuted. One study estimated that more than 75% of white collar crime goes unreported (Doost, 1990). To deal with this issue, the Association for Certified Fraud Examiners undertook a massive, multi-year study of the problem. The Association surveyed 10,000 fraud examiners around the country and established a 26% response rate (Wells, 1997). The report drawn from that research has come to be called the Wells Report and it constitutes the most comprehensive study of employee fraud yet conducted. Among the specifics concerning actual instances of employee fraud, the survey asked for opinions from this panel of experts with regard to the scale of the problem. Their estimate, noted above, was 6% of gross revenues, coupled with an even more staggering position that two of three employees in America are stealing at least something from their employers (Wells, 1997).

The scale of the problem on an individual firm level results in even greater insight. The average loss for small firms, those with less than 100 employees, was $120,000 per firm, almost exactly the same amount as for large firms, those with 10,000 or more employees. This means that small firms experience fraud *at nearly 100 times the rate* of large firms (Wells, 1997). The most frequent fraud discovered in the Wells Report and probably in the nation as a whole is a fraud committed by an accounting clerk in a small business. How many small firms can absorb a loss of $120,000 and survive? The answer is not one which offers any encouragement with regard to the survival rate of small businesses.

It is our belief that the situation for small firms is even worse. As noted above, experts believe that 75% of fraud goes unreported (Doost, 1990). In the case of small firms, we believe that this ratio is *grossly understated*. Small firms are the least likely to have any sort of internal controls in place, are the least likely to engage in any sort of external review or audit, are the least likely to have current records, and almost never have internal auditors. Consequently, most small businesses *cannot determine* when fraud has occurred, at least not for an extended period of time. Given that small business failure tends to be sudden and final, that implies that fraud in small firms which results in their failure is almost never detected.

The authors have consulted with more than 400 small firms over the last 20 years. Anecdotally, the owners of those firms were almost always engaged in dubious accounting and financial activities which were designed to reduce income tax liabilities.

Specifically, this involved removing funds from taxable status though a variety of means, most of which accountants and tax representatives would consider to be fraudulent. These actions distorted the financial status of the firms and made it difficult to determine the true state of financial health of the businesses involved. The actions also made it difficult, impossible in many cases, to determine whether any other employees of the business might be involved in embezzlement or other fraudulent acts. Thus, the authors are convinced that the proportion of fraud recognized in small firms is much less than the overall average.

In our view, less than 10% of frauds in small firms are reported or even recognized. If our perspective of the ratio of fraud recognition is valid, then the actual proportion of frauds involved in contributing to business failures is vastly larger: *the majority of small business failures may result from fraud*. In our view, the overwhelming majority of fraud losses are *disguised* as *managerial, economic, financial* or *capitalization* problems.

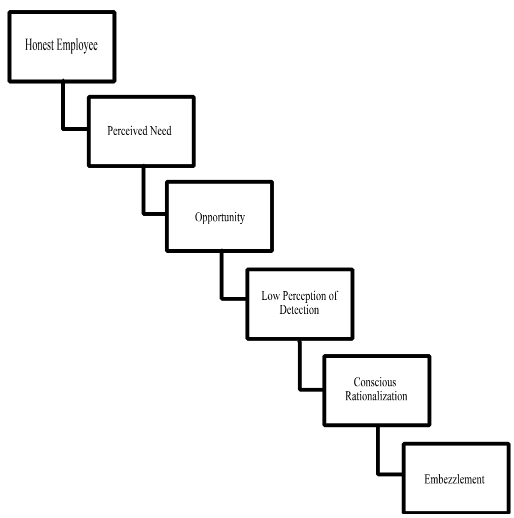
WHO COMMITS FRAUD?

Many people find the answer to this question surprising, because the vast majority of people who commit fraud are not criminals. They look and act just like our neighbors and friends because they *are* our neighbors and friends. Both men and women commit fraud, both young and old commit fraud, both employees and managers commit fraud. In fact, perfectly honest people commit the overwhelming majority of frauds and they do so because they get caught on the slippery slope of fraud and slide into embezzlement.

As Exhibit 2 shows, there are four distinct factors which lead honest people to commit fraud. These include a perceived need for money, the recognition of an opportunity to commit fraud, and a perception that the probability of detection of a fraud is low (Wells, 1997; Stocks, 1997; Cressey, 1973; Albrecht, Howe &

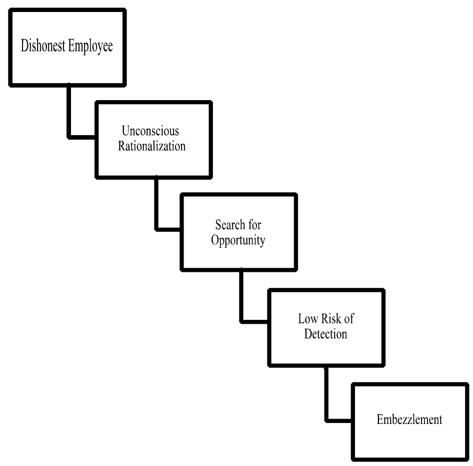
Romney, 1984). Finally, the honest person must find a way to rationalize the behavior in order to commit the fraud.

EXHIBIT 2
THE SLIPPERY SLOPE OF FRAUD



This last separates honest people from dishonest people. Honest people only commit fraud when they can justify the action in their own minds. As Exhibit 3 shows, dishonest people begin with an unconscious rationalization of their behavior. Thieves perpetually recognize that their actions are appropriate as they are so self-focused and self-centered that they always feel justified in taking what comes to hand. Fortunately for businesses, there are few dishonest people. Unfortunately, most honest people can find themselves stealing from their employers under the right conditions (Wells, 1997; Albrecht et al., 1984; Cressey, 1973).

EXHIBIT 3
THE THIEF AT WORK



An anecdote attributed to Abraham Lincoln, Honest Abe, highlights the problem which we face from honest employees. The story goes like this:

> *Abraham Lincoln once threw a man out of his office who had offered him a substantial bribe. Mr. Lincoln angrily turned down the bribe and explained the source of his anger to an observer: "Every man has his price, and he was getting close to mine"* (Stocks, 1997).

The anecdote illustrates that all of us can be tempted and all of us can fall. Even the most honest among us, when faced with financial crisis which dooms a loved one, may take a loan with every intention of repaying it. Perceived need is a critical aspect for honest people (Wells, 1997; Cressey, 1973).

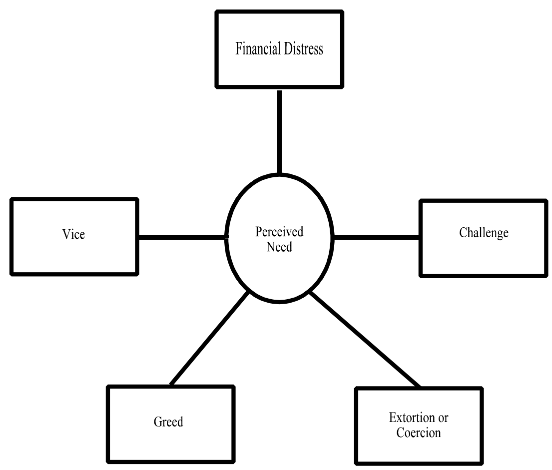
THE PERCEPTION OF NEED

Exhibit 4 displays the factors which influence the perception of need. As the exhibit shows, the primary aspects include financial distress, vice, greed, extortion, and the challenge of the action. Financial distress is the source of most needs driving honest people to commit fraud. This distress may come from an illness of a family member, the loss of a job within the family, or any of a host of legitimate financial needs (Wells, 1997). The key is that the individual has no legitimate means of satisfying the financial need. That is, the individual can borrow no more, nor find any other source of funds. People experiencing such distress may well be tempted to borrow from their employers without that employers' knowledge (Albrecht et al., 1984).

Financial needs can also be driven by less than legitimate demands. For example, people may fall prey to any of a number of vices which create a need for additional money. These may range from gambling to drugs, but all vices tend to require ever greater funds as time passes (Stocks, 1997).

In addition, an honest employee may fall prey to extortion on the part of an outsider or another employee. Blackmail of a trusted employee is a time proven technique among professional criminals and may become more prevalent as more professional white collar criminals arise. However, it is even more likely for an employee, especially a manager, to feel coerced into fraud by unrealistic performance standards, expectations and requirements.

EXHIBIT 4
FACTORS IN THE PERCEPTION OF NEED



An employee may recognize that the only way to achieve the performance standards required is to *cook the books*. In fact, an employee may feel that his or her position is in jeopardy without taking such an action. In that case, the fraud distorts the financial statements (Wells, 1997). Alternatively, the only way to achieve a bonus or commission which an employee greatly desires or needs, could be to commit fraud (Wells, 1997).

Michael Douglas declared that *"Greed is good!"* in the now classic film *Wall Street* (1987). However, greed in employees, however natural and normal such a trait may be, is a recipe for embezzlement. Sadly, initial *borrowings* predicated on financial distress frequently create greed where it did not exist before. It is almost trite to say that:

> *Embezzlers never stop. They never save their money and they get more greedy over time. It may be extremely hard to cross the line and be dishonest the first time, but once an individual crosses the line, he or she never stops until caught.* (Stocks, 1997)

Of course, one must always guard against stereotypes, but experience does suggest that greed takes over when financial distress or some other factor was the initial motive. That is, greed drives subsequent frauds.

A certain amount of greed is almost always present and is a key factor in driving an individual to commit minor frauds involving expense accounts. This is especially the case when an atmosphere exists in the firm which produces a casual and continuous *fudging* of expense and reimbursement vouchers(Wells, 1997).

Finally, some people, especially those who find themselves using computer systems to steal are unable to resist the personal challenge inherent in the action. These people need the thrill that the action itself creates rather than the money which results. The intellectual challenge may initially be sufficient, but experience teaches that greed becomes a factor upon success and drives a fraudster to subsequent acts (Albrecht et al., 1984; Wells, 1997).

FRAUD OPPORTUNITY

Perceived need alone will not precipitate fraud. There must be an opportunity. Exhibit 5 describes the factors which create opportunities to commit fraud. As the exhibit shows, internal controls, their absence, their weaknesses, or failure to follow them, feature prominently in fraud opportunity (Cressey, 1973; Albrecht et al., 1984).

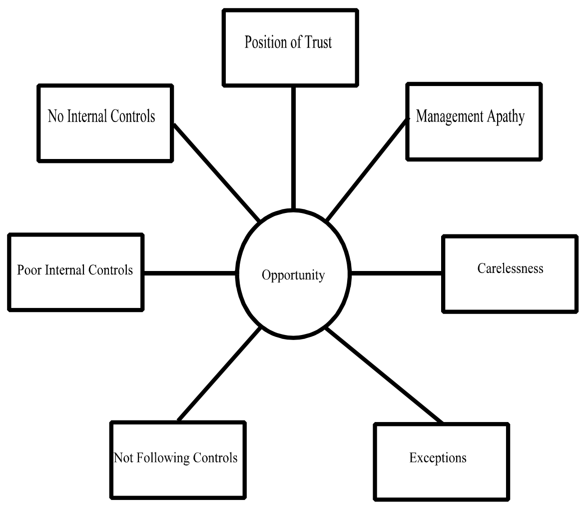
This is particularly relevant to small businesses because they so frequently have little or no internal controls. The most basic of all internal controls is the separation of duties. By requiring a different person to post the records from the person who opens the mail or makes bank deposits, this control means that collusion between two or more employees is required before a fraud can be committed. In theory, collusion is a much more unlikely occurrence than having a single employee become involved in a fraudulent activity. Small firms, however, seldom have sufficient employees to be able to separate duties. Further, most small business owners seem to feel that because they know their employees very well, those employees are more trustworthy.

As Exhibit 5 shows, the position of trust concept is a major contributor to fraud opportunity. We understand that trust is required in order to conduct business, but to assume that an individual employee is always and perpetually above temptation is naive in the extreme.

Proper restraints should always be in place, if for no other reason than to protect people in positions of trust from suspicion if and when something does happen (Cressey, 1973).

Management apathy toward fraud is rife throughout American businesses and is especially prevalent within small firms. This attitude is partially the result of an unwillingness to confront the issue of fraud; it is not a socially acceptable subject for polite discussion. Perhaps a more insidious factor in the management attitude is the acceptance that a certain amount of minor theft is inevitable. These *wages in kind* are to be expected and most people do take home a few office supplies or some of the items in inventory on occasion. If we make too much of this minor pilferage, we are likely to damage morale and increase demands for higher wages as well as drive up *goldbricking.* Regardless of its cause, managerial apathy ignores the reality of human behavior. Informal social controls are known to be the best deterrents to aberrant behavior (Tyler, 1990; Wells, 1997). The attitudes of one's coworkers is dramatically affected by a general perspective that management simply does not care about performance or behavior.

EXHIBIT 5
FACTORS IN FRAUD OPPORTUNITIES



Carelessness is almost always a result of a belief that management simply does not care about one's performance. It is unimportant to carefully process transactions or pay attention to detail and the attitude of the supervisor makes it clear just how unimportant it is. One is not rewarded for such attention or care, and sloppy people make just as much and do just as well. This is a dangerous problem, especially in a small business, because carelessness leaves the door open for people to bypass any control systems which might exist.

Finally, the processing of exceptions can increase the opportunity to commit fraud. Exceptions are unavoidable. No system can be designed to handle every possible situation which can arise. The problem is that exceptions must be handled outside the control system. If these exceptions are not individually reviewed by a responsible party, the opportunity exists for artificial exceptions to be created as openings to fraud (Hollinger & Clark, 1983).

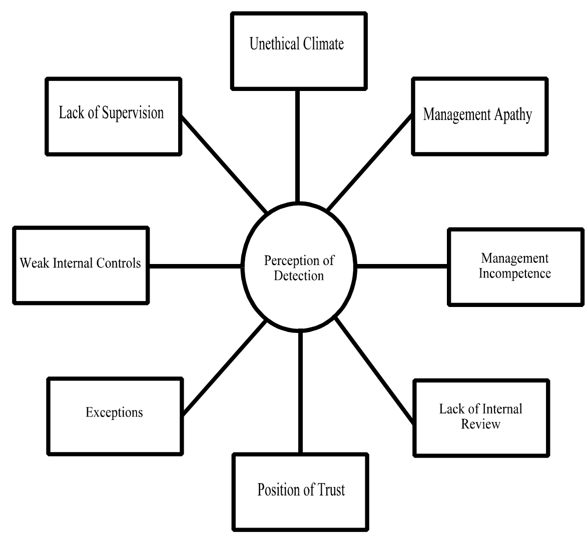
PERCEPTION OF DETECTION

The probability that a fraudulent activity will be detected is less important than an individual's perception of that probability. As is generally the case, what is real is what people believe to be real. Exhibit 6 displays eight primary factors which contribute to a perception of a low probability of detection of any fraudulent activity. These include a lack of supervision, weak internal controls, failure to review exceptions, positions of trust which are above review, a lack of internal review, management apathy or management incompetence, and a general climate in the organization which is unethical (Cressey, 1973; Hollinger & Clark, 1983; Wells, 1997).

We have previously discussed the issue of internal controls which include adequate supervision, an internal review, and a proper review of exceptions. In addition, we have discussed management apathy and the problems attendant on a position of trust. These factors create opportunities for fraud as well as making it more difficult to detect when it has occurred.

If employees consider the management to be incompetent, they will also assume that those managers are incapable of detecting fraud. This may well be an accurate perception, although the original perception of incompetence may not be accurate.

EXHIBIT 6
FACTORS IN THE PERCEPTION OF DETECTION



An entirely new concept we are introducing here is the idea that an unethical climate within a firm contributes to a perception of a low probability of detection of any fraudulent activity. This climate results when owners, managers and other employees are involved in unethical, or fraudulent behavior. The idea is that if everyone else is stealing, detecting those activities is unlikely.

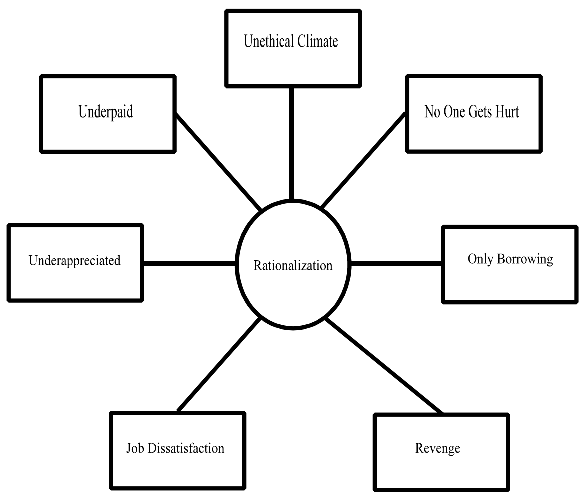
This is especially a problem for small firms because their owners so frequently attempt to avoid income taxes through actions which employees view as fraudulent. In a recent case we observed the dramatic impact which such actions can precipitate. Our client was the owner of a fairly successful automotive repair facility. The business had grown to 15 employees and our client was charging a number of personal expenses against the business to reduce its tax liabilities. These included a beach house, a cabin on the lake, lease payments on three cars, loads of personal insurance, high travel and entertainment expenses, etc. In addition, there may well have been actual cash receipts which disappeared before they could be recorded. Clearly, scrap and other items of value continually disappeared from the shop. The result was a firm which constantly teetered on the edge of financial ruin as it never had significant profits and never had sufficient cash resources to handle its obligations.

Like many, if not most, small businesses, our client had one employee who handled the bookkeeping: all of the bookkeeping. That person, perhaps influenced by his daily observation of the owner's behavior, succumbed to the temptation and dipped into the till. No one discovered his theft until the bank holding the primary business loan became enraged at yet another payment which *bounced,* and called the loan. The bookkeeper confessed, but it was too late. The bank's action forced the closing of the business. We have witnessed similar scenarios with other clients over the years, but the story illustrates how dangerous it can be for a small business to permit an unethical atmosphere to develop within the business. For a small firm, eliminating opportunity may be impossible, so maintaining a high moral climate is crucial to preventing fraud.

RATIONALIZATION

As mentioned earlier, an honest employee must be able to rationalize a fraudulent action in order to commit it. This is the primary difference between a thief and an honest individual (Cressey, 1973; Wells, 1997). This rationalization allows the fraudster to believe that his or her actions are not criminal. As Exhibit 6 displays, there are seven major factors which contribute to an individual's ability to rationalize a fraudulent act. These include the idea that the fraud is only a loan. In fact, many fraudsters, if not most, initially do believe that their actions are in the form of an unapproved loan. As discussed in a preceding section, greed may well become a later factor and drive subsequent frauds, but the initial act was rationalized as a loan badly needed in a financial crisis (Cressey, 1973; Albrecht et al., 1984).

EXHIBIT 6
FACTORS IN RATIONALIZATION



Concomitant with that attitude is the notion that no one is hurt by the fraud. The company can clearly handle the loss. Alternatively, an individual may actually wish to harm the company out of revenge for a supervisor's actions, the loss of a promotion, a demotion, or any action or lack of action which the employee deems to be personally unfair or professionally damaging (Wells, 1997).

By far, the most prevalent sources of rationalization revolve around an employee's belief that he or she is underappreciated or underpaid (Wells, 1997). This makes the commission of a fraud a simple correction of an unfair situation or the rendering of one's proper dues.

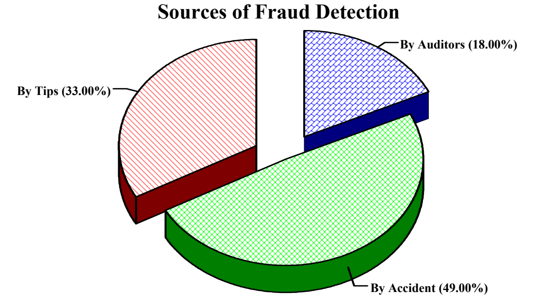
A great deal of research has shown that job dissatisfaction is frequently associated with an employee fraud (Hollinger & Clark, 1983; Wells, 1997). Unhappy workers have low morale, and are more likely to exhibit a host of problems from excessive sick days, to employee theft.

Finally, we note that an unethical climate can be a clear source of rationalization. As discussed in the preceding section, this is particularly a problem for small businesses. The idea is quite simple. When an employee sees that others, especially managers and owners, are involved in fraudulent activities, there is little reason to refrain from such actions.

FRAUD DETECTION

Fraud is not generally detected by auditors. In fact, most fraud is detected by accident or through tips from other employees (Stocks, 1997). As Exhibit 7 shows, only about 18% of frauds are detected by auditors, a third by tips and 49% are detected accidentally (Stocks, 1997). To this dismal picture we must add the fact that the overwhelming majority of frauds are never detected. Of course, the primary reasons for the low level of detection are the same reasons that so many frauds occur in the first place: the factors which create opportunity and contribute to a low level of perception of detection prevent the actual detection of frauds. Consequently,

Exhibit 7
Sources of Fraud Detection



the best approach to increasing the rate of actual detection is to eliminate or mitigate the factors in opportunity and detection perception.

There is another factor which the data reveals; one which is vitally important to building a program to combat fraud. As the graph discloses, fully one third of frauds are detected by tips. It is well established that the vast majority of employees are disturbed by fraudulent activities which they recognize within their firms, however, they are reluctant to report such activities for fear of becoming involved in an embarrassing, messy situation, fear of retaliation, fear of not being believed, etc. (Wells, 1997).

At the same time, experience teaches us that when an employee engages in fraud, other employees in the firm know about it. In a recent case, we were engaged to work with a firm which had just discovered a fraud and was attempting to prevent future occurrences. The firm was quite small with just eight employees, but we had been in the business less than 30 minutes when the first employee whispered to us how upset she had been to witness the fraud and how pleased she was that we would be working to prevent such problems in the future. Within two hours, five of the eight employees had confided to us that they knew about the fraud when it was occurring, but had been reluctant to say anything to the owner. Time and again, this situation is reported by fraud investigators. When an employee engages in fraud, other employees know about it.

The issue is how can we overcome their reluctance to report the fraud? We will deal with that question and other factors relating to the prevention and detection of fraud, especially in small firms, in the following section.

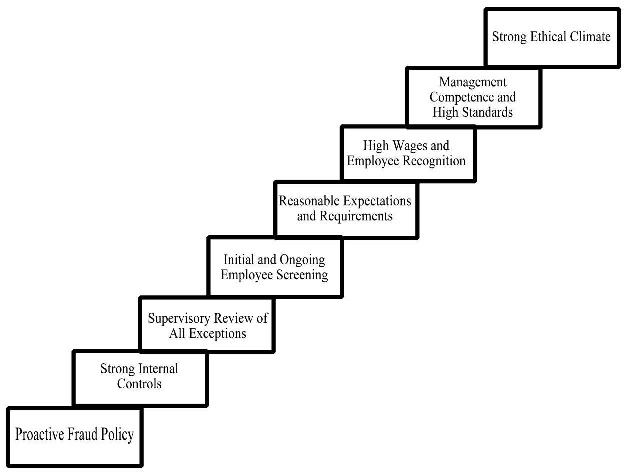
CREATING AN ETHICAL CLIMATE

The title of this section reveals the time proven approach to preventing and detecting fraud: we must create an ethical climate within the firm. Nothing functions as well in deterring fraud as a real environment of honesty and ethics within the firm: not internal controls, not outside auditors, nothing. This is extremely good news for small businesses. Even a firm which cannot afford to implement sound internal controls can still protect itself against fraud. It need only create the proper climate (Wells, 1997). Exhibit 8 describes the steps involved in creating such a climate.

First, and foremost in the process is the establishment of a proactive fraud policy. This means that we must bring fraud out of the closet, recognize that it occurs in virtually every organization in varying degrees, make all managers and employees aware of the serious dangers which fraud creates and take proactive steps to stop the problem. The first such step must be for the owners and managers to recognize that leading by example is required to garner employee belief. People at the top in the business must embrace high ethical standards and display them to everyone in the organization. To this end, a code of ethics for the firm is a great idea, but the most important point to remember is that *nothing* goes on in a business, especially a small business, without others in the firm knowing about it. That means that a deviation from a code of ethics, either written or implied, on the part of the owner, the chief executive, senior management, etc., will destroy the ethical climate. The owner or chief executive must be serious about ethics, and must take immediate and serious action against any managers behaving in an unethical fashion (Wells, 1997).

The ethics to which we refer in the preceding paragraph obviously include fraud, but they are more far reaching. To establish a code of high moral conduct, the business must be operated in an ethical fashion; it cannot take advantage of suppliers, customers, employees, or others; it cannot pretend to be ethical; it must be ethical. The reasons have to do with the real deterrent for any deviant activity: fear of the loss of respect of one's peers. Informal sanctions occur when an individual breaches the real code of behavior in any social organization. For honest people, these informal sanctions are more effective than any punishment or formal sanctions (Wells, 1997). Noting that most fraudsters are honest, creating an environment in which informal, social sanctions, and the loss of peer respect will accompany any fraudulent activity is the single best deterrent any organization can envision.

EXHIBIT 8
STEPS IN CREATING AN ETHICAL CLIMATE



This higher stance is the first, and most important aspect of a proactive fraud policy and is especially important for small firms who have limited resources which will make the subsequent step described in Exhibit 8 more difficult. Creating, maintaining and enforcing strong internal controls is an attainable objective in larger firms (Hollinger & Clark, 1983), but we must recognize that such controls do slow down the process of business and management and do create costs in the form of additional personnel and time.

Many small firms, especially start up firms or very small businesses, simply cannot afford strong internal controls. For these businesses, it becomes especially important for the owner to take an extremely high ethical stance and to pay close attention to the remaining steps in creating the proper climate.

Exceptions can never be eliminated, even in the most bureaucratic organization (Hollinger & Clark, 1983). It is impossible to create a system which anticipates every transaction or operation. In small firms, exceptions may even be the rule. The key in creating the proper climate within the firm is to ensure that everyone recognizes that exceptions must be approved: every exception should be reviewed and approved by the supervisor of the individual handling the exception. In small businesses, this may mean the owner approving most exceptions (Wells, 1997). Only by creating a situation in which exceptions cannot disappear, can a firm ensure that they do not mask a fraudulent action.

Initial employee screening is really vital in ensuring that we do hire honest people. As described in a previous section, dishonest employees do exist and they are constantly seeking an opportunity in which to commit fraud. Some fraud experts believe that a general decline in the moral fabric of the society is contributing to the occurrence of an increasing number of dishonest people (Wells, 1997). Whether that is true or not, employee screening is vital to making the work force honest and ethical.

Unfortunately, this process is extremely difficult, especially for small businesses because one cannot depend upon calling references to identify a potential thief. In the first place, a former employer can never disclose any suspicion of fraud, only that a fraud was prosecuted against an individual. Since such prosecutions seldom occur, calling references is unlikely to reveal anything of value in the hiring decision. That is not to say that it should not be done. In fact, every former employer and school should be contacted to confirm that the prospective employee was truthful in providing historic information. Be sure to look up telephone numbers rather than rely on those provided by the applicant. Even a very small business can accomplish this level of check as it simply requires a telephone and a few minutes of time.

To assist in screening applicants, a credit check is valuable. You must obtain permission from the applicant to conduct such a check, but it can reveal a great deal of information and provide insight into the financial affairs of the prospective employee. This is a simple process which a small business can easily accomplish by making arrangements with the local merchant's association or registering with any of several national credit organizations. It is so important that we recommend its use in ongoing employee screening. That is, check the credit of every employee once each year. This will help point out changes in the financial condition which could lead an honest person to becoming hostage to a perceived need.

The best screening techniques are actually interview techniques. People trained in interviewing can identify inconsistencies and pinpoint lies with an extremely high degree of success (Wells, 1997). Unfortunately, this requires training. Larger firms can and should arrange for training in interview techniques for people who will be involved in screening applicants and employees. A small firm may wish to consider engaging a professional from outside the firm to handle its interviews. This may be a private investigation firm specializing in white collar crime, or an accounting firm specializing in fraud investigations. It must be an organization with people trained in interview techniques.

These interview techniques should also be applied as part of the ongoing screening. Some firms employ lie detectors for this process, but that is also an expensive process and can easily create ill will and low morale within the organization if not handled professionally. An annual interview combined with each person's annual evaluation can help to identify employee problems before they reach the fraud stage. This leads well into the next step in creating an ethical climate: reasonable expectations and requirements. During this annual review and interview, one should address the individual's performance with respect to the job requirements and set expectations for the future. These expectations must be reasonable. They do not have to be easily accomplished, but they must be deemed reasonable by the managers and employees in general or they will erode the climate which we are trying to create. The key is to create an environment which employees and managers consider fair.

A major aspect of fair treatment is clearly wages. We need to pay wages which are considered by the managers and staff as high in comparison to the market and area. Small businesses may particularly feel that this is an imposition, but one must remember that employees are critical to the successful operation of any business. To be most successful, a business needs the best people it can recruit and retain. High wages are the best approach here, and they also contribute to an attitude of fairness and equity within the company. Along those same lines, employees need to be recognized for their performance, both financially and otherwise. Good performance should be valued in the firm and that value should be tangible and apparent to the employees.

Finally, the company should recognize that managers must be held to higher standards than employees. Managers are role models and have a disproportionate influence on employee attitude, morale, and behavior because of their positions within the firm. Consequently, managers must be held to high ethical standards. Above all, managers must be competent; competent to perform their duties; competent to supervise employees; competent to review and evaluate exceptions; competent to recognize problems within the ranks; competent to root out fraud. If we have competent managers, that is the last, but most critical step, in creating an ethical climate within the firm.

CONCLUSION

In conclusion, the authors believe that the available evidence supports a conclusion that the majority of small business failures are caused by fraud. This is good news, because fraud can be limited, if not eliminated, even in very small firms with limited financial resources. First, one must recognize that most fraud is committed by honest employees who have a perceived need for money, recognize an opportunity to take that money, perceive the probability of detection as low, and have the ability to rationalize their behavior. The best defense against fraud is a high ethical climate within the firm. This is not just a matter of internal controls. In fact, internal controls are the most costly and the least effective aspects of limiting fraud. The most important aspects have to do with owners and managers setting an example of ethical behavior and requiring employees to adhere to those standards. The real deterrence to unethical and fraudulent behavior is the fear of informal, social sanctions: i.e., the loss of respect of peers. This loss of respect results from violation of broadly held beliefs and mores. Consequently, to bring informal sanctions into play, we must create an atmosphere within the company in which all the employees and managers adopt the appropriate mores: *unethical actions and fraud are intolerable*. There is no stronger weapon against fraud.

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ONE MORE TIME … SHOULD SMALL COMPANIES ATTEMPT *STRATEGIC* PLANNING?

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ABSTRACT

Most entrepreneurs and small company owner/managers agree they need a plan. Pursued for an explanation, they allow that some form of a business plan, or company description and financial projections, has proven essential to establishing a line of credit, getting a loan, or attracting an investor. They often clarify their position by adding that the plan has little real value, and that it indeed has been ignored since the loan was received, the line of credit was established, or the investor brought on board. The authors from their experience have elucidated this very important concept.

INTRODUCTION

Most entrepreneurs and small company owner/managers agree they need a plan. Pursued for an explanation, they allow that some form of a business plan, or company description and financial projections, has proven essential to establishing a line of credit, getting a loan, or attracting an investor. They often clarify their position by adding that the plan has little real value, and that it indeed has been ignored since the loan was received, the line of credit was established, or the investor brought on board.

As we have studied and worked with thousands of entrepreneurs and their businesses over the last 20 years, this perspective has begun to make sense. Admonitions to plan aside, a business or financial "plan" that serves only as a resource solicitation document is just that! Created to accomplish that objective, it is set aside so that tomorrow's efforts and undertakings may be focused on tomorrow's new objectives. So admonishing entrepreneurs with the importance of their "plan" accomplishes little and brings immediately to their minds a stale document that has served its purpose and, not surprisingly, has little contemporary relevance.

The admonition to plan could gain an audience if we simply change the semantics of the conversation to *planning*. Adding the "ing" adds the notion of action … doing … which begins to gain a bit of a raised eyelid from the entrepreneur. General Eisenhower's famous dictum, "*it's not the plan, it's the process of planning*," has a certain relevance here. He had in mind the discipline of figuring things out and a management team's give and take during that process, which gives this simple notion some credibility in the entrepreneur's mind. Unfortunately, that spark of credibility is satisfied in many entrepreneurs' minds with the follow-on notion that *yes, that planning process was useful, and the next time we need to create a business plan or financial plan for our banker or investor the process will be more appreciated as a meaningful activity*. Or, for the more humorous entrepreneur, it is synonymous with the notion that *planning by the seat of your pants usually means you end up with torn pants*. Both such follow-on notions are sadly incomplete.

IDEAS AND PERSISTENCE ARE NOT ENOUGH

What's missing from this contemplation and discussion of the lasting value of planning, or even of a plan, may still be a matter of semantics. At the risk of over- simplifying something that may truly be profound, the issue may boil down to the word *strategic* and what it means, or should mean, to the entrepreneur or small business when coupled to the word *plan*, or more importantly, *planning*.

Most of us are familiar with common arguments-by-analogy in favor of *strategic* planning by small businesses. They often sound something like the following: "*No strategic plan? Would you travel through unfamiliar territory without a map*?" We've heard this one countless times, and it sounds reasonable to us – but then we already believe in the value of strategic planning to small businesses.

Many owners and managers of small businesses, on the other hand, are less convinced of its value. They object that the road to success isn't waiting, paved and marked, for the entrepreneur who remembered to bring the map – and they're right! And they're right again when they add that successful entrepreneurs start out with an idea, a concept, or an urge, and combine it with persistence. The sad fact is, however, that these ingredients are necessary but not sufficient conditions for success.

Research and experience show that nearly all entrepreneurs – successful and failed – start with an idea, concept, or urge. Many of them persist, some even when failure should be obvious. A few are "lucky" but hardly enough to account for the majority of successes. Besides, as football coach Ara Parseghian used to tell his teams, "Luck is when preparation meets opportunity." In business, preparation comes through *strategic* planning.

THE VALUE OF A STRATEGY

Many owners and managers of small businesses routinely plan their day-to-day operations but don't believe that *strategic* planning applies to them. Mention strategic planning, and they think of elaborate bound documents resting on bookshelves in the offices of large companies, or of the detailed plans used in project management. That's where many small businesses go wrong. No business is too small to require a sound strategy, and few strategies are so simple that they need not be developed into a strategic plan. Our hope in writing this article is briefly to explain why small businesses need a strategic plan and to suggest several sources of detailed guidance for readers who wish to learn more.

A strategy spells out three elements that are essential to any business: (1) its *goals*, (2) the *policies* or rules that guide its decisions, and (3) the *actions* intended to accomplish its goals. This seems cut-and-dried, but actually developing and executing a strategy is far from a routine, connect-the-dots process. The thinking behind a strategy need not be sophisticated, but nevertheless must be thorough and careful.

A firm's strategy should serve as its *logic for competing* – a coherent encapsulation of its products and services, the markets and types of customers it serves, and the benefits they derive. From this logic come the firm's decisions on how to position itself against rivals, on which markets to focus, and which opportunities to pursue. A strategy also should summarize the firm's *logic for organizing* – an identification of key activities and how they will be carried out to realize the logic for competing. From the logic for organizing come decisions on which activities are critical to the firm's success, how the tasks required by these activities should be grouped into jobs, and what criteria are appropriate in evaluating the performance of those jobs. Tight integration of the logics for competing and for organizing lays the foundation for the firm's *competitive advantage* – the basis of its superiority over rivals in serving a particular market or market segments.

THE PERIL OF HAVING *NO* STRATEGY

Over the past twenty years we have worked with over 1,000 small businesses, either supervising teams of students who consulted to them or on a personal consulting basis. Our observations of these and other small businesses square with what experts have written: *At least half of small businesses do not have a strategy*. The consequences vary in their particulars, but the pattern of increased failure is clear among these companies.

Without a strategy's *logic for competing*, a florist clambered vainly after each specialized market developed by her successful rivals, never identifying a market opportunity suited to her own resources and location. A home-inspection service struggled to survive, seeking business directly from homeowners through small advertisements and business cards posted on bulletin boards while rivals developed productive relations with leading realtors. The partners in a startup venture to produce an industrial product drained their capital in securing a production site, equipment, and component parts prior to identifying a target market or the distribution channel to reach one.

Without a strategy's *logic for organizing*, a graphic arts partnership identified one market as its primary target but devoted most of its sales efforts to two other markets. Lacking knowledge of its own costs-by-products, a producer of consumer commodities vigorously promoted items on which, at best, it broken even and neglected items that earned robust margins. A restaurateur attempted to combine large-volume, off-site catering and a diverse, sit-down luncheon menu from one small kitchen.

Each of these businesses benefitted from an entrepreneur's idea, concept, or urge, and each entrepreneur labored with total devotion to make it succeed. And ofttimes that devotion to success can be documented though one or more "plans" that became dust-collecting reminders of loans won or investments sold. Yet each of these businesses failed or came perilously close to failure because it lacked a coherent strategy, expressed in a *strategic* plan. Their entrepreneurs' close attention to daily operations and immediate tactics, as well as their occasional business plans, were not sufficient to ensure survival, let alone success, in the absence of a logic for competing or of a logic for organizing.

GETTING STARTED ON STRATEGIC PLANNING

We don't mean to suggest that <u>any</u> strategy is better than none. We have seen companies killed by strategies so wrong-headed that they probably were worse that unguided, reactive decisions. With that experience in mind, we urge owners and managers of small companies to do strategic planning, and do it well.

Many good sources of advice and guidance are available. We will recommend several that can get you started. Complete reference information for each book is provided at the end of this article.

For an introduction to *strategic* planning and related issues in the small business, we suggest that you consider two books. *Simplified Strategic Planning: A No-Nonsense Guide for Busy People Who Want Results Fast!* is the product of extensive work by its authors with small and medium-sized businesses. The book presents straightforward, concise guidance (including planning templates) and a logical sequence for developing a strategic plan without a large staff. While it draws heavily on the academic work of leading researchers James Brian Quinn (Dartmouth/Tuck) and Michael Porter (Harvard), the book has a firm grounding in the environment of businesses that cannot ignore daily operational requirements for the sake of planning. A second introductory book, *Applied Strategic Planning: How to Develop a Plan That Really Works*, was written by three consultants and trainers and offers a clear, effective way to identify and implement strategic objectives. It covers all phases of the strategic planning process, including determining if an organization is ready for strategic planning. The book offers numerous charts, diagrams, and checklists to aid readers in applying its ideas to their businesses. It is particularly appropriate for the beginning strategic planner.

The entrepreneur or small company builder who wants to take strategy development to its highest level might consider one of the following books. *Leading the Revolution*, by Gary Hamel, is a recent, important best seller that integrates the arguments of many leading thinkers into one set of procedures for constantly establishing and superbly implementing improved business models for customer interfaces, core strategy, using strategic resources, and value networks. *Corporate Strategy: A Resource-Based Approach*, by David Collis and Cynthia Montgomery, gives small company owners several conceptual tools, built around the notion of a company's strategy being crafted from a unique understanding of its true strategic resources, with which to guide quality strategic thinking and analysis of their company and shape sound strategies. Finally, Michael Porter offers a time-tested set of three classic books to guide your strategic thinking: *Michael Porter on Competition, Competitive Strategy,* and *Competitive Advantage*. Martyn Richard Jones, founder of Iniciativas, a management consulting firm, had this to say in an Amazon.com book review (March 3, 2001) about Porter's books: "You can always tell when it's time to dust off the old Michael E. Porter books and to start to frantically search for better and sounder ways to do business and compete, it's when the economy starts to get a little tighter and begin to show signs of taking a down-turn, like about now. So, before you fork out good money and time to read the next grandiose book on how to make a fast few million bucks on the internet read this first, and you will still be in business this time next year, and after that-maybe."

A final set of reading recommendations involves strategy implementation. As important as the competitive logic behind a strategy can be, it is execution of those ideas that determine success. One new book, *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*, by Robert Kaplan and David Norton, offers an impressive framework building upon their "balanced scoreboard" approach for the implementation of strategy. Their research suggests that 90% of strategic plans fail due not to formulation but to implementation difficulties. This books suggests ways to align and link all parts of an organization to its strategy and offers numerous examples to help managers adapt their ideas. In short, it addressed the logic of organizing. A second book, *Formulation, Implementation and Control of Competitive Strategy*, by Jack Pearce and Richard Robinson, offers broad coverage of a variety of concepts and models for implementing and controlling strategy execution.

John Naisbett's book, *Global Paradox*, predicted that the larger and more interconnected the world economy becomes, the more important become the smallest players in that economy. We mention this book in closing because Naisbett's evidence is compelling: the rate of change, the impact of technology, the importance of speed, and the ability to reach anywhere in the world --- all create the opportunity for competitive advantage among smaller companies. And large companies are rapidly deconstructing and reorganizing to respond to this critical advantage that's inherent to their smaller competitors. With so much 21st century opportunity, many entrepreneurs with excellent ideas, concepts, or urges will labor with total devotion to build new companies. Yet history suggests that many of these exciting new businesses will fail or come perilously close to failure because they lack a coherent *strategy*, expressed in a *strategic* plan. The entrepreneurs' close attention to daily operations and immediate tactics, as well as their occasional business plans, will not be sufficient to ensure survival, let alone success. In this historical period of global opportunity for small business, that will be a shame.

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