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Denmark
jla@knowledgelab.sdu.dk

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New Zealand
ksimpson@unitec.ac.nz

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stankova@vse.cz

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Unitec Business School
New Zealand
lwalker@unitec.ac.nz

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St. Bonaventure University
St. Bonaventure, New York
cwittmey@sbu.edu

Darush Yazdanfar
Mid Sweden University
Sweden
darush.yazdanfar@miun.se

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LETTER FROM THE EDITOR

It is my pleasure to serve as editor of the Small Business Institute Journal. I would like to thank all the reviewers for their help and timely returns of their reviews.

The staff of the Small Business Advancement National Center was very instrumental in the publishing of this journal and I would like to personally thank Patrick Combs, Nicole Kluck, John Reach, and Latedra Williams.

SBI® Officers were very supportive in this effort as well as the University of Central Arkansas. Over the years the support that I have received from the College of Business Administration and the University of Central Arkansas has truly been an inspiration to my creativity.

I hope you as a reader enjoy our efforts, and look forward to the second edition to come out in October of 2008.

Your continued support will be greatly appreciated. Thank you for the opportunity to serve you.
Sincerely,

Don B. Bradley III, PhD.
Editor

MANUSCRIPTS

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

Peggy E. Chaudhry, Ph.D.
Department of Management and Operations
Villanova School of Business
Villanova University
2039 Bartley Hall
Villanova, PA 19085
610.519.6442
Email: peggy.chaudhry@villanova.edu

The author would like to recognize Kathryn J. Pertzsch-Cottrell, owner, Pertzsch Design, an entrepreneurial small business in the service sector for her contribution to the study. This research was funded by the Challenge Fund and the Department of Management and Operations at the Villanova School of Business.

ABSTRACT

The principal purpose of this study was to provide a synopsis of innovative CRM concepts that can assist a small entrepreneurial design firm develop a process to effectively communicate with its customers through a CD-ROM direct mail campaign. We discuss using multiple communication channels, building loyalty, establishing customer retention tactics and changing service offers to forge better client relationships for this commercial design firm. A synopsis of the learning curve associated with the development of the CD-ROM direct mail campaign is given in context of developing the visual presentation, coordinating the technical programming, and designing the packaging for this novel customer intercept technique.

Key words: Customer Relationship Management, Marketing and Entrepreneurship, CD-ROM direct mail campaign, Entrepreneurial Small Firm

INTRODUCTION

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

Currently, the entrepreneur faces a major marketing problem, how to effectively 'mine' new business opportunities through innovative customer relationship management? Pertzsch Design has grown to the point where the owner has hired assistants to perform the 'downstream' tasks of computer-aided design and basic design. The majority of the firm's business comes from 'word-of-mouth' through previous clients and working as a sub-contractor for a small

number of architect firms. Thus, the owner needs to refocus her talent to soliciting future work through providing an exceptional customer experience to these clients.

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

SELLING THE INVISIBLE

A manager in the service sector must assess the art of 'selling the invisible.' To illustrate this concept, Harry Beckwith's book, *Selling the Invisible* is an invaluable resource for any manager in the service business. Huling (2004) clarifies the point by stating, "professionals' services are invisible products . . . lawyers, doctors, and accountants tend to think clients are buying their expertise. However, most prospects for such complex services can't evaluate expertise. They can't tell if a tax return is accurate, a diagnosis is perceptive or an insurance policy appropriate—but they do know if their relationship with you is good, if their phone calls are returned, and if they feel valued. If we're selling a service, we're selling a relationship and an experience." The current literature is replete with various concepts of Customer Relationship Management (CRM) techniques to further develop customer loyalty. Several of the articles focus on the information technology (IT) tools, such as *NetSuite* and *Business Contact Manager*. However, these software tools were not be feasible Pertzsch Design due to both the cost of an IT

system and the small size of its customer base. Thus, this study explored whether a small entrepreneurial business, such as Pertzsch Design, can develop an effective CRM strategy through an alternate tool, a CD-ROM direct mailing, to sustain and cultivate a better rapport with its current and prospective clients.

USING A PRAGMATIC MODEL OF THE CRM PROCESS

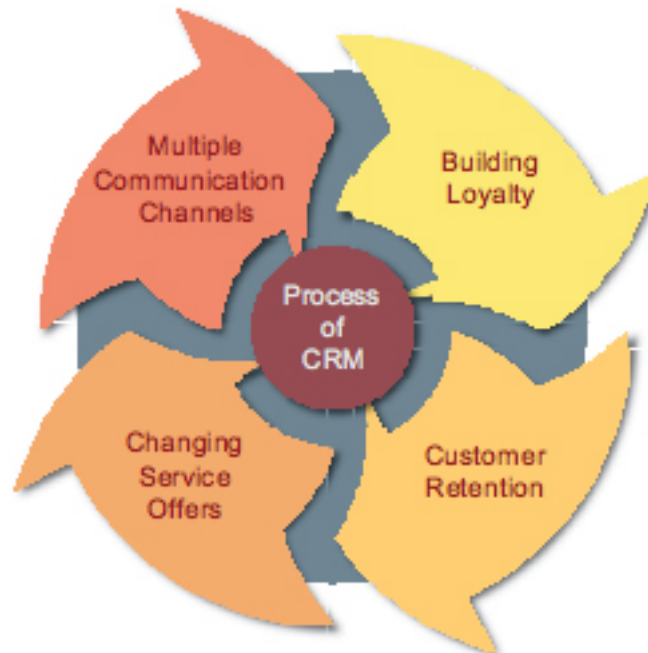
After twelve years of experience working for various commercial architect firms, Kate Pertzsch started a company in interior design five years ago in LaCrosse, Wisconsin. Pertzsch Design (www.pertzschdesign.com) primarily focuses on commercial design projects in the states of Wisconsin and Minnesota.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

FIGURE 1. ORTHODONTIST OFFICE



FIGURE 2. HAIR SALON

Currently the firm faces a major marketing problem, how to effectively ‘mine’ new business opportunities through innovative customer relationship management? The company’s business has grown to the point where the entrepreneur has hired staff to perform the ‘downstream’ tasks of computer-aided design and basic design. The majority of the firm’s business comes from cultivating new projects from previous clients, working as a sub-contractor for a small number of architect firms in the area, and referrals from past clients and/or reputable builders in this geographic area. Thus, to grow the firm, the owner must refocus her talent to soliciting future work through providing an exceptional customer experience to these clients. Figure 3 portrays a CRM model developed by Chaudhry (2007) for small entrepreneurial firms in the service sector. We used this model to establish multiple communication channels; build further customer loyalty, maintain customer retention tactics that will lead to the possible change of service offerings to each client.

FIGURE 3. PROCESS OF CUSTOMER RELATIONSHIP MANAGEMENT


Source: Chaudhry, P. “Developing a Process to Enhance Customer Relationship Management for Small Entrepreneurial Businesses in the Service Sector,” *Journal of Research in Marketing and Entrepreneurship*, 2007, Volume 9.

ESTABLISHING MULTIPLE COMMUNICATION CHANNELS

The value of using CRM software for Pertzsch Design was debated; however, one questions the validity of using CRM software for small entrepreneurial firms, since there is a budget constraint for this type of service. The firm currently has three employees, less than fifty clients, and a budget of \$2,000 to fund the CRM initiative. Thus, the researchers’ had to investigate a more cost-effective plan using CRM techniques through a brainstorming session with the owner regarding feasible communication channels. Of course, one of the company’s most important channels is informal through face-to-face meetings and teleconferences with clients. However, the owner agreed to perform a CD-ROM direct mail campaign to both her current and prospective clients. This method was selected due to the novelty of the concept and the approach

'fit' the image of the design firm—perceived to be leading-edge in terms of its portfolio of services.

James Meyers (2003) provides some insight into switching the client from traditional media to an electronic format as, “(W)hatever option you choose, your publications will be more successful if they integrate traditional offline print with the latest online media, and if they deliver original relevant editorial across multiple mediums. Using both print and electronic media, you can push your readers online and pull them back to print to ensure that you reach the widest possible audience.”

The key objective of this unique customer intercept was to access the client by way of implementing a direct mail campaign with a CD-ROM that illustrates a strong visual content of Pertzsch Design's recent projects and connects the client to a web survey. This type of CRM campaign was successfully used for Volvo to reach its fleet managers in the company's "For Life" promise. The main goal of the campaign was to provide leads for the company's dealer network. A recent article in *Precision Marketing* (2005) describes the innovative campaign that was well-received by its recipients as, “The outer of the pack carries the strapline: 'Finding the right company cars can be tough. So here's a set of keys.' The pack opens to reveal images of the 'control' and 'escape' computer keys, and features the line: 'The only keys you need to unlock Volvo for business.' The campaign will see 20,000 mail packs sent out over an eight-month period, with 130,000 inserts and press ads appearing in trade publications throughout the year. The mail pack includes a CD-ROM with footage of the Volvo range, information on the Volvo Safety Centre, service offers and links to relevant websites.”

DESIGNING THE CD-ROM DIRECT MAIL CAMPAIGN

Developing an effective CD-ROM direct mail campaign highlighting a portfolio of distinct

design projects was completed using the infrastructure at the researchers' university in terms of programming a PowerPoint slide show of the company's portfolio, securing copyright approval and adding music to the slide show for auditory effect, designing a web survey, and printing the packaging for the CD-ROM. The actual programming of the CD-ROM and questionnaire development required over one year to complete. In December 2007, Pertzsch Design sent 250 CD-ROMs to both current and prospective clients to create awareness of the firm's portfolio of projects, to reinforce its visibility with existing and prospective clients, and to collect data by way of a web survey.

The development of a PowerPoint presentation took several months to complete due to programming the CD-ROM in terms of reducing its file size, keeping the length of interaction with the respondent at a minimal level, and ensuring the 'internet readiness' of the respondent's computer through a mail insert. Once the client receives the CD-ROM in the mail, he/she must be able to insert the CD-ROM into his/her computer and effortlessly watch the PowerPoint presentation and answer the web survey (a web link is imbedded in the CD-ROM presentation) within 6-8 minutes. Why 6-8 minutes? Based on the professional opinion of various market researchers, the time taken for the respondent to view the PowerPoint presentation and answer the web survey should be less than ten minutes. Jeffrey Graham of ClickZ states that, "(Q)uestionnaires should be like a good poem. Include everything that needs to be there and nothing that doesn't. Brevity is a golden virtue, especially on the Internet where everyone has the attention span of a modern three-year-old" (Graham, 2007, ¶8). Thus, in terms of programming the CD-ROM, the difficulties that were faced by the researchers in terms of implementation include:

1. **Reducing the File Size of the PowerPoint Presentation:** The presentation includes many photos of the design projects of the firm. However, each photo

significantly increases the file size of the PowerPoint file and a trade-off had to be made between the clarity of the photos (i.e., size of the jpeg) and the size of the PowerPoint file on the CD-ROM.

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

The learning curve associated with programming the CD-ROM was immense and the researchers' would like to caution that this type of work was very time consuming and required support from technicians to program the visual presentation on the CD-ROM, a web consultant to transfer the survey from a Word document to HTML format using Microsoft FrontPage, and a marketing consultant to design the packaging and final version of the PowerPoint presentation.

BUILDING CUSTOMER LOYALTY

It seems that despite the explosion of reward-based programs, the key is still providing the 'customer experience' to differentiate the product or service. Reinartz and Kumar (2002) debate

that companies need to find a better way to link its customer loyalty to profits. In *Harvard Business Review* the researchers' state that, "we discovered little or no evidence to suggest that customers who purchase steadily from a company over time are necessarily cheaper to serve, less price sensitive, or particularly effective at bringing in new business" (Reinartz and Kumar 2002, p. 87).

Compton (March 2005) reports in *Customer Relationship Management* that, "(B)etween the explosion of miles-based programs and the expensive telecommunications customer-acquisition wars of the 1990s, loyalty programs providing incentives in exchange for business have been under the microscope for at least a decade. Loyalty programs have been seen as an attractive alternative, or perhaps simply a necessary evil, during a time when perceived product superiority is difficult to achieve and maintain." Harvey Thomson, in his book, *Who Stole My Customer?* questions the validity of these reward schemes and cautions managers to focus that the key of effectively competing for loyalty is ensuring the *quality* of the customer experience, not the *quantity* of customer rewards.

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

1. **Complacency in customer acquisition** . Thinking today's acquisition is satisfactory and will sustain itself. Wrong. Employee turnover in the stores requires continuous attention to blips in acquisition. Even good store personnel will slack off if they are not monitored. The good ones should be given acknowledgement and the bad ones will need corrective action.
2. **Assumption that "the card" and "points or equivalent monetary rewards" is enough** to sustain enough customer retention to make the program worthwhile. Your competitors are communicating to their customers (who are also your customers) on a very regular basis. One of the best programs I am working with communicates with their customers about every month. Each communication has to be relevant and cannot

always offer 10% off all inventories. Different messages, different channels, different medium, and relevant to the customer and his or her past purchases.

3. **Assumption that you got the program right and it will remain so.** The program must change as competition changes and as the environment changes. Who would have thought a few years ago that loyalty programs would be sending the rewards statements out via email...Or reminders via email...Or reminders via voice messaging?
4. **Building a single channel loyalty program** when your customer buys via multiple channels. If they buy from any channel, the customer should be rewarded from all channels. Specials can occur in a particular channel just like you have departmental specials, but if the promotion can be multi-channel, make it so.

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

MAINTAINING CUSTOMER RETENTION

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

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

Rhey and Gyra (2001) provide a framework for a small business in terms of analyzing its customer satisfaction, customer needs and new product (service) development, and customer retention. Table 1 lists these questions below.

TABLE 1. QUESTIONS FOR SMALL BUSINESS STUDY

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

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

CHANGING SERVICE OFFERS

An analysis of Pertzsch Design's service offerings based on the feedback garnered from the CD-ROM direct mail campaign is currently being analyzed. Thus, it is premature to speculate at this point as to what aspects of the service business need to be altered at this stage of the case study. However, Reinhartz's and Kumar's (2002) framework may help us categorize the firm's current clients and select a loyalty strategy based on the profitability and long-term relationship of the customer. As shown in Table 2, this study identified four distinct types of customer categories: butterflies, true friends, strangers, and barnacles.

TABLE 2. CHOOSING A LOYALTY STRATEGY

| | | |
|---------------------------|--|--|
| High Profitability | <p>Butterflies</p> <ul style="list-style-type: none"> • Good fit between company's offerings and customers' needs • High profit potential <p>Actions:</p> <ul style="list-style-type: none"> • Aim to achieve transactional satisfaction, not attitudinal loyalty • Milk the accounts only as long as they are active • Key challenge is to cease investing soon enough | <p>True Friends</p> <ul style="list-style-type: none"> • Good fit between company's offerings and customer's needs • Highest profit potential <p>Actions:</p> <ul style="list-style-type: none"> • Communication consistently but not too often • Build both attitudinal and behavioral loyalty • Delight these customers to nurture, defend, and retain them |
| Low Profitability | <p>Strangers</p> <ul style="list-style-type: none"> • Little fit between company's offerings and customers' needs • Lowest profit potential <p>Actions:</p> <ul style="list-style-type: none"> • Make no investment in these relationships • Make profit on every transaction | <p>Barnacles</p> <ul style="list-style-type: none"> • Limited fit between company offerings and customers' needs • Low profit potential <p>Actions:</p> <ul style="list-style-type: none"> • Measure both the size and share of wallet • If share of wallet is low, focus on up- and cross-selling • If size of wallet is small, impose strict cost controls |
| | Short-term customers | Long-term customers |

Source: Reinhartz, Werner and Kumar, V., "The Mismanagement of Customer Loyalty," Harvard Business Review, July 2002, p. 93.

This typology of distinct types of customers may prove to be useful in determining what

types of actions should be implemented towards the firm's various customers. For example, how can Pertzsch Design avoid 'overkill' with nurturing its relationship with 'true friends'?

CONCLUSION

This study provides a general outline of techniques for an entrepreneurial small firm to use in the development of its CRM process. Overall, the study provides key recommendations on various aspects of the process in term of using multiple communication channels, cultivating more brand loyalty, and assessing customer retention tactics. The research in this study develops a visual and interactive direct mail campaign by way of CD-ROM. One of the overriding constraints of developing the CRM process for Pertzsch Design was a marketing budget of \$2,000. However, after reviewing some of the CRM alternatives, an entrepreneur can make great strides with even this limited budget. The CD-ROM direct mail campaign was launched in December 2007. We are currently analyzing the data and cannot offer any generalizations about whether this CRM tool was effective? Whether the model accurately depicts the CRM process? These are research questions that will be addressed in a future study.

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**RATIO ANALYSIS FEATURING THE DUPONT METHOD:
AN OVERLOOKED TOPIC IN THE FINANCE MODULE OF
SMALL BUSINESS MANAGEMENT AND ENTREPRENEURSHIP COURSES**

Submitted by

Thomas J. Liesz
University of Idaho
(208) 885-5447 (office)
tliesz@uidaho.edu

Steven J. Maranville
University of Houston-Downtown
One Main Street
Houston, TX 77002-1001
(713) 221-8524
maranvilles@uhd.edu

Submitted to

Small Business Institute Journal

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**RATIO ANALYSIS FEATURING THE DUPONT METHOD:
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SMALL BUSINESS MANAGEMENT AND ENTREPRENEURSHIP COURSES**

INTRODUCTION

Many business students, along with a lot of small business management instructors, tend to shy away from quantitative analysis. The qualitative aspects of a business – such as generating novel product ideas and creating marketing campaigns– are far more “fun” than record keeping and financial analysis. However, there is much evidence that a lack of financial control is often a quick path to business failure.

According to Dun & Bradstreet’s *Business Failure Records (1994)*, “poor financial practices” is second only to “economic conditions” as a cause of business failures. Further, studies have been published as far back as 80 years ago (see Meech (1925)), as well as more recently (such as those published by Bruno, Leidecker, and Harder (1987); Gaskill, Van Auken, and Manning (1993); Lauzen (1985); and Wood (1989) that specifically cite poor financial control as a chief cause of unsuccessful businesses. Firer (1999), and more recently Kelly (2005), stress the importance of monitoring the “financial health” of a small business.

Consequently, it is vital that students of small business management and entrepreneurship become skilled at performing financial analyses. Students would benefit from a relatively simple tool for not only assessing how a particular small business is faring, but also for devising strategies for bottom line improvement. Such a tool exists in the form of financial ratio analysis, and in particular, an updated version of the classic Du Pont model.

The aim of this paper is to critically discuss and expand the role of ratio analysis, particularly the DuPont method, as an educational component of small business and/or entrepreneurial courses. To accomplish this purpose, the authors undertake a critical and

historical examination of the financial analysis literature and how ratio analysis is incorporated into small business management and entrepreneurship textbooks. Drawing the conclusion that the DuPont method is under-represented in the education of small business management students, the authors introduce the “really” modified DuPont model. The relevance of this model is, then, demonstrated through an example analysis, after which implications for the education of small business management students are discussed.

RATIO ANALYSIS

The use of financial ratios by financial analysts, lenders, academic researchers, and small business owners has been widely acknowledged in the literature for more than 40 years. (See, for example, Horrigan (1965), Edmister (1972), Osteryoung & Constand (1992), Devine & Seaton (1995), or Burson (1998). Financial ratios are used to determine a company’s strengths and weaknesses. A fundamental definition of any profit-seeking business is an entity that acquires resources in order to generate profits through the production and sale of goods and/or services. Ratios show important relationships between a firm’s resources and its financial flows. In a way, ratio analysis provides a “report card”. If the firm’s managers are doing a good job, they know it. If they are not doing a good job, not only will they know it, but they will also have a clear understanding of what they can do about it.

It would seem, then, that any course regarding small business would include a meaningful dialogue regarding the usefulness of ratio analysis in successfully managing a business. However, in a review of more than a dozen contemporary textbooks from the fields of Small Business Management, Entrepreneurship, and Entrepreneurial Finance, the authors discovered that the topic of Du Pont analysis is given short shrift (see Table 1). Even if financial ratio analysis was included in a given text, DuPont analysis was totally ignored in all but one.

Examining Table 1 it is easy to see that Small Business Management textbooks provide exposure to basic ratio analysis, but ignore DuPont. Entrepreneurship textbooks generally have a unit on finance, but often do not even include a discussion of ratio analysis. Only in Entrepreneurial Finance textbooks might one find the DuPont model mentioned and explained.

| Textbook & Author(s) | Discipline | Covers Ratio Analysis | Covers DuPont Model |
|--|---------------------------|-----------------------|---------------------|
| Small Business Management: A Planning Approach (Corman, Lussier, Pennel) | Small Business Management | Yes | No |
| Small Business Management: An Entrepreneurial Emphasis (Longnecker, Moore, and Petty) | Small Business Management | Yes | No |
| Small Business Management: An Entrepreneur's Guidebook (Megginson & Megginson) | Small Business Management | Yes | No |
| Small Business Management: Entrepreneurship and Beyond (Hatten) | Small Business Management | Yes | No |
| Small Business: An Entrepreneur's Business Plan (Ryan & Hiduke) | Small Business Management | Yes | No |
| Effective Small Business Management: An Entrepreneurial Approach (Scarborough & Zimmerer) | Small Business Management | Yes | No |
| Essentials of Entrepreneurship and Small Business Management (Zimmerer & Scarborough) | Small Business Management | Yes | No |
| Survivors Guide to Small Business (Townesley) | Small Business Management | No | No |
| New Venture Creation: Entrepreneurship for the 21 st Century (Timmons & Spinelli) | Entrepreneurship | No | No |
| Entrepreneurship (Lambing & Kuehl) | Entrepreneurship | No | No |
| Entrepreneurism: Exploring Entrepreneurship from a Business Perspective (Duening & Sherrill) | Entrepreneurship | No | No |
| Entrepreneurship: Successfully Launching New Ventures (Barringer & Ireland) | Entrepreneurship | No | No |
| Entrepreneurial Finance: Finance for Small Business (Adelman & Marks) | Entrepreneurial Finance | Yes | No |
| Entrepreneurial Financial Management: An Applied Approach (Cornwall, Vang, & Hartman) | Entrepreneurial Finance | Yes | Yes |

| | | | |
|---|-------------------------|-----|----|
| Entrepreneurial Finance (Leach & Mellicher) | Entrepreneurial Finance | Yes | No |
| The Entrepreneur's Guide to Finance and Business (Rogers) | Entrepreneurial Finance | Yes | No |
| Entrepreneurial Finance (Smith & Smith) | Entrepreneurial Finance | No | No |

Since there is so little exposure to the concept, unless small business management instructors provide supplemental DuPont lecture material or the small business management students learn the concept well enough in an introductory finance course, this extremely useful tool is totally overlooked.

While a complete discussion of the broad array of financial ratios and their interpretation is beyond the scope of this paper, a case is made for ensuring that students of small business management and/or entrepreneurship develop a level of comfort with, and understanding of, this critical analytical tool. This paper specifically concentrates on Du Pont analysis, a sub-portion of the ratio analysis methodology for monitoring and enhancing a business's profitability and "return". Arguably, profitability ratios address the most "bottom line" question of all: how is the business doing? Accordingly, the concepts of Return on Assets (ROA hereafter) and Return on Equity (ROE hereafter) provide the best understanding of the drivers of profitability for a business enterprise and the return to its owners. A "return on" ratio illustrates the relationship between profits and the investment needed to generate those profits. However, these concepts are often "too far removed from normal activities" to be easily understood and useful to many managers or small business owners. (Slater and Olson, 1996) But, what if a powerful, but easy-to-learn, tool for profitability analysis was right at our fingertips? Well, it is – namely, DuPont analysis.

THE DU PONT MODEL: A BRIEF HISTORY

Before discussing the mechanics and usefulness of Du Pont, it may be of some interest to learn about its development. The maturation of the Du Pont model parallels the progress made in the field of financial analysis itself. Three distinct versions of Du Pont have been created and used to help unravel the underlying drivers of profitability and return over time, beginning nearly 90 years ago.

In 1918, four years after he was hired by the E. I. du Pont Corporation of Wilmington, Delaware, to work in its treasury department, electrical engineer F. Donaldson Brown was given the task of untangling the finances of a company of which Du Pont had just purchased 23 percent of its stock. (This company was General Motors!) Brown recognized a mathematical relationship that existed between two commonly computed ratios, namely net profit margin (obviously a profitability measure) and total asset turnover (an efficiency measure), and ROA. The product of the net profit margin and the total asset turnover equals ROA, and this was the original Du Pont model, as illustrated in Equation 1 below.

$$\text{Eq. 1: } (\text{net income} / \text{sales}) \times (\text{sales} / \text{total assets}) = (\text{net income} / \text{total assets}) \text{ i.e. ROA}$$

At this point in time maximizing ROA was a common corporate goal and the realization that ROA was impacted by both profitability and efficiency led to the development of a system of planning and control for all operating decisions within a firm. This became the dominant form of financial analysis until the 1970s (Blumenthal, 1998).

In the 1970s the generally accepted goal of financial management became “maximizing the wealth of the firm’s owners” (Gitman, 1998) and focus shifted from ROA to ROE. This led to the first major modification of the original Du Pont model. In addition to profitability and efficiency, the way in which a firm financed its activities, i.e. its use of debt or “leverage” became a third area of attention for financial managers. The new ratio of interest was called the

equity multiplier, which is determined by the equation (total assets / equity). The modified Du Pont model is shown in Equations 2 and 3 below.

Eq. 2: $ROA \times (\text{total assets} / \text{equity}) = ROE$

Eq. 3: $(\text{net income} / \text{sales}) \times (\text{sales} / \text{total assets}) \times (\text{total assets} / \text{equity}) = ROE$

The modified Du Pont model (also commonly known as the “Du Pont identity”) became a standard in all financial management textbooks and a staple of introductory and advanced courses alike as students encountered statements such as: “Ultimately, the most important, or “bottom line” accounting ratio is the ratio of net income to common equity (ROE)” (Brigham and Houston, 2001). The modified model was a powerful tool to illustrate the interconnectedness of a firm’s income statement and its balance sheet, and to develop straightforward strategies for improving the firm’s ROE. The Du Pont identity provides an excellent way to get a quick snapshot view of the overall performance of a firm in three critical areas of ratio analysis. (Isberg, 1998) This is not to say, however, that even the modified Du Pont model did not have its critics. At least one author (Boyd, 1989) argued that the Du Pont model did not adequately distinguish between “favorable” leverage and “unfavorable” leverage, based upon the impact of preferred stock in a firm’s capital structure. However, as Gitman (2000) points out, not many firms use preferred stock to raise capital and the leveraging effect of preferred stock is usually small. For small businesses in particular the use of preferred stock is very unlikely.

More recently, Hawawini and Viallet (1999) offered yet another modification to the Du Pont model. This modification resulted in five different ratios that combine to form ROE. In their modification they acknowledge that the financial statements firms prepare for their annual reports (which are of most importance to creditors and tax collectors) are not always useful to managers making operating and financial decisions. (Brigham and Houston) Hawawini and Viallet restructured the traditional balance sheet into a “managerial balance sheet” which is “a

more appropriate tool for assessing the contribution of operating decisions to the firm's financial performance." (Hawawini and Viallet, p. 68) This restructured balance sheet uses the concept of "invested capital" in place of total assets, and the concept of "capital employed" in place of total liabilities and owner's equity found on the traditional balance sheet. The primary difference is in the treatment of the short-term "working capital" accounts. The managerial balance sheet uses a net figure called "working capital requirement" (determined as: [accounts receivable + inventories + prepaid expenses] – [accounts payable + accrued expenses]) as a part of invested capital. These accounts then individually drop out of the managerial balance sheet. A more detailed explanation of the managerial balance sheet is beyond the scope of this paper, but will be partially illustrated in an example later in the paper.

The "really" modified Du Pont model is shown below in Equation 4.

$$\text{Eq. 4: } (\text{EBIT} / \text{sales}) \times (\text{sales} / \text{invested capital}) \times (\text{EBT} / \text{EBIT}) \times (\text{invested capital} / \text{equity}) \times (\text{EAT} / \text{EBT}) = \text{ROE}$$

Where: invested capital = cash + working capital requirement + net fixed assets

This "really" modified model still maintains the importance of the impact of operating decisions (i.e. profitability and efficiency) and financing decisions (leverage) upon ROE, but uses a total of five ratios to uncover what drives ROE and give insight to how to improve this important ratio.

The firm's operating decisions are those that involve the acquisition and disposal of fixed assets and the management of the firm's operating assets (mostly inventories and accounts receivable) and operating liabilities (accounts payable and accruals). These are captured in the first two ratios of the "really" modified Du Pont model. These are:

1. operating profit margin: (Earnings Before Interest & Taxes or EBIT / sales)
2. capital turnover: (sales / invested capital)

The firm's financing decisions are those that determine the mix of debt and equity used to fund the firm's operating decisions. These are captured in the third and fourth ratios of the "really" modified model. These are:

3. financial cost ratio: (Earnings Before Taxes or EBT / EBIT)
4. financial structure ratio: (invested capital / equity)

The final determinant of a firm's ROE is the incidence of business taxation. The higher the tax rate applied to a firm's EBT, the lower its ROE. This is captured in the fifth ratio of the "really" modified model.

5. tax effect ratio: (Earnings After Taxes or EAT / EBT)

The relationship that ties these five ratios together is that ROE is equal to their combined product (see Equation 4.).

RECENT EVIDENCE OF DU PONT MODEL APPLICATION

Prendergast (2006) and Milbourn & Haight (2005) present examples of using Du Pont analysis in both a business and classroom setting. Prendergast illustrates how a "modified Du Pont approach to ratio analysis can be used to drill down to the true cause of financial performance problems" in a small manufacturing business (p. 48). Milbourn & Haight show the use of "Du Pont Analysis as a teaching aid to equip students with an understanding of how management decisions influence the bottom line" (p. 46). Unfortunately, the Milbourn & Haight paper is concerned exclusively with only the original Du Pont model, i.e. it shows the drivers of no more than Return on Assets. We will show the impact and value of the Du Pont model drivers on Return on Equity.

 EXAMPLE OF APPLYING THE “REALLY” MODIFIED DU PONT MODEL

To illustrate how the model works, consider the income statement and balance sheet for the fictitious small firm of Herrera & Company, LLC.

Income Statement

| | |
|---|------------------|
| Net Sales | \$766,990 |
| Cost of Goods Sold | (560,000) |
| Selling, General, & Administrative Expenses | (143,342) |
| Depreciation Expense | <u>(24,000)</u> |
| Earnings Before Interest & Taxes | \$ 39,648 |
| Interest Expense | <u>(12,447)</u> |
| Earnings Before Taxes | \$ 27,201 |
| Taxes | <u>(8,000)</u> |
| Earnings After Taxes (net profit) | <u>\$ 19,201</u> |

Balance Sheet

| | | | |
|-------------------------------|------------------|----------------------------------|------------------|
| Cash | \$ 40,000 | Notes Payable | \$ 58,000 |
| Pre-paid Expenses | 12,000 | Accounts Payable | 205,000 |
| Accounts Receivable | 185,000 | Accrued Expenses | <u>46,000</u> |
| Inventory | <u>200,000</u> | Current Liabilities | \$309,000 |
| Current Assets | \$437,000 | Long-Term Debt | |
| Land/Buildings | 160,000 | Mortgage | 104,300 |
| Equipment | 89,000 | 8-Year Note | 63,000 |
| Less: Acc. Depreciation | <u>(24,000)</u> | Owner's Equity | <u>185,700</u> |
| Net Fixed Assets | <u>\$225,000</u> | Total Liabilities & Equity | <u>\$662,000</u> |
| Total Assets | <u>\$662,000</u> | | |

Computation of ROE

1. Operating Profit Margin = $\$39,648 / \$766,990 = .0517$
2. Capital Turnover = $\$766,990 / *\$411,000 = 1.8662$
3. Financial Cost Ratio = $\$27,201 / \$39,648 = .6861$
4. Financial Structure Ratio = $\$411,000 / \$185,700 = 2.2132$
5. Tax Effect Ratio = $\$19,201 / \$27,201 = .7059$

$$\text{ROE} = .0517 \times 1.8662 \times .6861 \times 2.2132 \times .7059 = **.1034 \text{ or } 10.34\%$$

* Invested Capital = Cash (\$40,000) + Working Capital Requirement [\$185,000 + \$200,000 + \$12,000] – [\$205,000 + \$46,000] (or \$146,000) + Net Fixed Assets (\$225,000) = \$411,000

** Note that this is the same as conventional computation of ROE: $\$19,201 / \$185,700 = .1034$

CONCLUSION & IMPLICATIONS

The Du Pont model of analysis requires no more than a few simple calculations, well within the ability of any student, manager, or small business owner. The potential reward for taking the time to make these calculations is great. Who would not want to know precise actions that can be taken that will lead to higher profitability and return? Even the original model (culminating in ROA) provides valuable insights on return, but the more refined versions that break out the components of ROE allow even novice small business managers to make sound financial decisions that will have a positive impact on the return to firms' owners.

In particular, the “really” modified Du Pont model of ratio analysis can demystify relatively complex financial analysis and put strategic financial planning at the fingertips of any small business owner or manager who takes the (relatively little) time needed to understand it. Because it links several critical ratios, the Du Pont method allows one to examine how a firm generates its return to its owners, i.e. its ROE. Each operating and financial decision can be made within a framework of how that decision will impact ROE. Easily set up on a computer model (such as a spreadsheet), one can see how decisions “flow through” to the bottom line, which facilitates coordinated financial planning (Harrington & Wilson, 1986).

For example, what if Herrera & Company can reduce its cost of goods sold by just 1%? This would reduce COGS by \$5,600, resulting in a new cost of goods of \$554,400. Such savings is certainly well within the realm of possibility given opportunities to use alternate suppliers or seek quantity discounts. Plugging the new value of COGS into the spreadsheet elicits the following effects:

| | |
|---------------------------|--------|
| | 766,99 |
| Net Sales | 0 |
| Cost of Goods Sold | 554400 |
| Selling, General, & Admin | 143,34 |
| Exp | 2 |
| Depreciation expense | 24000 |
| EBIT | 45,248 |
| Interest Expense | 12447 |
| EBT | 32,801 |
| Taxes | 8000 |
| Net Profit | 24,801 |

| | | | |
|---------------------------|--------|---------------------|--------|
| Cash | 40000 | Notes Payable | 58000 |
| Pre-paid Expenses | 12000 | Accts Payable | 205000 |
| Accts Rec | 185000 | Accrued Expenses | 46000 |
| Inventory | 200000 | Current Liabilities | 309000 |
| Current assets | 437000 | Long-term Debt | |
| Land/Buildings | 160000 | Mortgage | 104300 |
| Equipment | 89000 | 8-year Note | 63000 |
| Less: Accumulated Deprec | 24000 | Owner's Equity | 185700 |
| | | Total Liabilities & | |
| Net Fixed assets | 225000 | Equity | 662000 |
| Total assets | 662000 | | |
| Invested capital | 411000 | | |
| operating margin | 0.0590 | | |
| capital turnover | 1.8662 | | |
| financial cost ratio | 0.7249 | | |
| financial structure ratio | 2.2132 | | |
| tax effect ratio | 0.7561 | | |
| DuPont-Generated ROE | 0.1336 | | |

Notice that ROE jumps from .1034 to .1336 - an increase of more than 29%! This is due to increases in the operating margin from .0517 to .0590, the financial cost ratio from .6861 to .7249, and the tax effect ratio from .7059 to .7561. This illustration would be very useful for a small business manager and/or owner to explain how controlling costs even a little bit can have a large impact on the firm's returns.

Similar, although not always quite as dramatic, results occur with changes in each of the

four other components of the “really modified” Du Pont formula. In the interests of space, we summarize these in the following set of examples.

The capital turnover ratio (Net Sales / Invested Capital) can be altered primarily by being more efficient and, thus, using less assets in the business’s operations. However, it will only make a difference in ROE if the reduction in assets is accompanied by an equivalent reduction in owner’s equity. For example, if Herrera & Company could reduce its inventory by 10% (from \$200,000 to \$180,000) and as a result the owners take out \$20,000 of their own equity (reducing owners’ equity from \$187,500 to \$167,500) the following changes occur:

| | |
|---------------------------|--------|
| Invested capital | 391000 |
| operating margin | 0.0590 |
| capital turnover | 1.9616 |
| financial cost ratio | 0.7249 |
| financial structure ratio | 2.3597 |
| tax effect ratio | 0.7561 |
| DuPont-Generated ROE | 0.1497 |

The financial cost ratio and financial structure ratio are both impacted by the amount of debt used and are so closely connected that it is best to look at them in tandem. In this example, suppose that Herrera & Company can borrow up to 25% more on its 8-year note without an increase in the interest rate it is paying the bank. That would mean the company would be borrowing \$78,750 rather than \$63,000 on the note. Again, they would reduce owner’s equity by an equivalent amount. Further, interest expenses would increase by roughly \$500 from \$12,447 to \$12,947. The results of these changes are:

| | |
|---------------------------|--------|
| operating margin | 0.0590 |
| capital turnover | 1.8662 |
| financial cost ratio | 0.7139 |
| financial structure ratio | 2.4184 |
| tax effect ratio | 0.7523 |
| DuPont-Generated ROE | 0.1430 |

Finally, the tax effect ratio (Earnings After Tax / Earnings Before Tax) can also be potentially manipulated by management. Taking advantage of any tax incentives offered by Federal, State, or Local governments would help improve ROE. For example, if Herrera & Company was able to get a \$250 tax incentive for creating a full-time position for a minority worker or for using some sort of “green” component to its operations, their taxes would be reduced from \$8,000 to \$7,500 and the following would occur:

| | |
|---------------------------|--------|
| operating margin | 0.0590 |
| capital turnover | 1.8662 |
| financial cost ratio | 0.7249 |
| financial structure ratio | 2.2132 |
| tax effect ratio | 0.7637 |
| DuPont-Generated ROE | 0.1349 |

As one can easily see, using the “really modified” Du Pont model allows a small business owners/managers to scrutinize how their operating, financing, and investing decisions impact the infamous “bottom line”. If the goal is to maximize the wealth of a firm’s owners, then this is a tool that ought to be in every owner’s or manager’s personal toolkit.

The five-ratio “really” modified DuPont model mitigates a major criticism of the traditional Du Pont model, namely that the model consists of very general measures (e.g. total assets is the most broad of asset measures) and the lack of detailed measures could lead to a misunderstanding of the true performance of a firm. The “really” modified Du Pont model, with the use of invested capital from the managerial balance sheet and the use of operating profit margin rather than net profit margin in determining ROE provides the finer detail Du Pont critics claim is lacking.

Sound financial statement analysis should be an integral part of not only the management process of any firm seeking to optimize the return to its owners, but also any educational

program that purports to be training the small business managers who will be running these firms. By identifying strengths and/or weaknesses in five possible areas, the “really” modified Du Pont model enables the analyst to quickly focus his or her attention to a more detailed study of particular aspects of a firm’s operations. We argue that the subsequent inquiry will be both easier and more meaningful within the Du Pont framework. With the assumed goal of improving ROE, we offer the following:

In its simplest form, we can say that to improve ROE the only choices one has are to increase operating profits, become more efficient in using existing assets to generate sales, recapitalize to make better use of debt and/or better control the cost of borrowing, or find ways to reduce the tax liability of the firm. Each of these choices leads to a different financial strategy.

For example, to increase operating profits one must either increase sales (in a higher proportion than the cost of generating those sales) or reduce expenses. Since it is generally more difficult to increase sales than it is to reduce expenses, a small business owner can try to lower expenses by determining: 1) if a new supplier might offer equivalent goods at a lower cost, or 2) if a website might be a viable alternative to a catalog, or 3) can some tasks currently being done by outsiders be done in-house. In each case net income will rise without any increase in sales and ROE will rise as well.

Alternatively, to become more efficient, one must either increase sales with the same level of assets or produce the same level of sales with fewer assets. A small business owner might then try to determine: 1) if it is feasible to expand store hours by staying open later or on weekends, or 2) if a less expensive piece of equipment is available that could replace an existing (more expensive) piece of equipment, or 3) if there is a more practical way to produce and/or deliver goods or services than is presently being used, or 4) whether a “sale and leaseback” arrangement with one or more fixed assets is feasible.

Further, small business owners can determine if they are using debt wisely. Refinancing an existing loan at a cheaper rate will reduce interest expenses and, thus, increase ROE. Exercising part of an unused line of credit can increase the financial structure ratio with a corresponding increase in ROE. And, taking advantage of tax incentives that are often offered by federal, state, and local taxing authorities can increase the tax effect ratio, again with a commensurate increase in ROE.

In conclusion, ROE is the most comprehensive measure of profitability of a firm. It considers the operating and investing decisions made as well as the financing and tax-related decisions. The “really” modified Du Pont model dissects ROE into five easily computed ratios that can be examined for potential strategies for improvement. It should be a tool that all business owners, managers, and consultants have at their disposal when evaluating a firm and making recommendations for improvement. A good place to start is to include the concept in the financial management chapters of all small business management/entrepreneurship textbooks, as well as in the financial management units of all small business management/entrepreneurship courses.

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THE HUMAN FACTOR IN DESIGNING A SUSTAINABLE OPPORTUNITY

Manuscript for the SBIJ

Sharda S. Nandram , Nyenrode Business Universiteit, Straatweg 25

3621 BG Breukelen, The Netherlands

Email: s.nandram@nyenrode.nl

Tel.: +31-346 29 15 45, Fax: +31-346 26 54 53

Karel J. Samsom

333 Washington Blvd # 335

Marina del Rey, CA 90292

USA

Tel.:+1-802-363-4203

Email: k.samsom@nyenrode.nl

THE HUMAN FACTOR IN DESIGNING A SUSTAINABLE OPPORTUNITY

ABSTRACT

The primary objective of this paper is the development of a new management model for entrepreneurial behavior based on a literature review of psychological and strategic management concepts. It offers ideas underpinning entrepreneurial tendencies along with practical orientations and suggestions for approaching the entrepreneurial processes. The main conclusion is that entrepreneurial tendencies are subject to a number of variables that can be modeled as a means to understand how attitudes to this process are developed. This approach can be framed through the resources based theoretical framework as the concepts of the proposed model can be seen as unique resource bundles that stimulate entrepreneurial behavior. The paper subsequently introduces the basis of sustainability and entrepreneurship as a rapidly emerging venturing field in which the human factor can play an important role.

INTRODUCTION

In the field of entrepreneurship scholars have dedicated a great deal of research to develop models for predicting entrepreneurship activities such as starting a venture or realizing success. Previously, academic scholars developed economic models and behavioral models from a strategic management orientation or exclusively from a psychological perspective. In pure neoclassical economic models there was no place for entrepreneurship because there were too many uncertain processes involved that hindered the realization of equilibrium. The entrepreneur didn't have perfect information to take action with the aim of maximizing utility. In this sense, it can even be doubted if maximizing utility in the economic sense is the driving force of the entrepreneur. In the dominant current economic view, entrepreneurship is studied as a disequilibrium phenomenon in which entrepreneurs occasionally disrupt the existing equilibrium

by innovations.

Besides economic models in which behavior, thus the human factor, plays a small role, academics offer behaviorally oriented approaches with an exclusive focus on the entrepreneur's personality, socio- economic backgrounds and traits. In the trait approach, the focus is on personal disposition of individuals. Traits are found by identifying entrepreneurs and non-entrepreneurs (see McClelland, 1961, 1965; Timmons, 1978; Aldrich and Zimmer, 1986; Begley and Boyd, 1987; Gartner, 1988, Low and MacMillan, 1988, Bird and Jelinek, 1988; Chell and Brearly, 1991; Miner, 1999). Variables such as birth order, role models, age, education level, and work habits were studied as predictors as well (Brockhaus, 1982). However most of these factors have not been found to be unique to entrepreneurs, rather they are common to many successful individuals, including managers. Low and MacMillan (1988) therefore conclude that the attempts to develop a personality profile of the typical entrepreneur have been largely unsuccessful. It is thus more useful to distinguish successful and unsuccessful entrepreneurs instead of distinguishing between types of entrepreneurs and managers to find the unique characteristics for each group. In view of the criticism on the trait approach, Robinson, Stimpson, Huefner, Hunt (1991) for example, assumed that attitude theory offers a better alternative for predicting entrepreneurial behavior. This shift towards entrepreneurial behavior is also a result of the assumption that traits and demographic variables are of limited use in training and development of entrepreneurs because they cannot be easily modified. Attitudes on the other hand, can be changed more easily.

Also from a strategic point of view there is another dynamic shift noticeable in the current entrepreneurship literature. Entrepreneurial scholars such as Stevenson (2000) and Timmons and Spinelli (2004) offer models to describe entrepreneurship. To introduce the subject, Stevenson (2000, p.13) defines entrepreneurship as "the pursuit of opportunity without regard to the

resources currently controlled”. Under this umbrella type definition, wide latitude in interpretation between start-up venturing and any later stages of entrepreneurial behavior is offered. Stevenson offers a dynamic description of entrepreneurship, thereby including corporate venturing and intrapreneurship. “In developing a strategic management theory of entrepreneurship it becomes clear that entrepreneurship is defined more by a set of individual traits and is different from an economic function. It is a cohesive pattern of managerial behavior” (ibid, p.13). Timmons and Spinelli (2004) elegantly illustrate the entrepreneurial process as a continuous interplay between opportunity, resources and the entrepreneurial team in an uncertain environment. Early on the uncertainty can be enormous, if not overwhelming, when contrasting the vision of the market opportunity with the processes of verification, resources acquisition, market forces and regulation, not to speak of the capital market context.

A third dynamic view is being offered from the perspective of natural capitalism. Actions are being undertaken by a variety of public and private parties, nationally and internationally, to reduce the externalization effects of current economic processes such as pollution and resource depletion. Social and environmental sustainability are concepts that are not new, but they are not present in the entrepreneurship literature yet. They have been applied to businesses by their owners and managers for centuries based on the personal values they brought to their endeavors. For entrepreneurs the issue of values is usually more personally and directly connected to the pursuit of opportunities than for corporations. For an entrepreneur, a complaint might require reimbursement for returned items or damage done in a community, and the financial impact of that transaction rests directly on the entrepreneur and his venture. It might even threaten reputation and viability of the young firm in the community. The very idea which became the opportunity on which the new venture is based, is usually rooted in a deeply held personal conviction, belief or vision of the entrepreneur. Many new products and services are built on

these personal values (Samsom, 1999). The tendency to start a business can be influenced by several factors described so far

This paper focusses on behavioral and cognitive aspects by taking human beliefs as a central focus for entrepreneurial activities such as designing a venture from an identified opportunity. Based on the available literature a new model for predicting the process of opportunity definition will be proposed.

LITERATURE

In view of the criticism of the traits approach it looks as if the individual perspective was getting lost in the entrepreneurship literature. Recently however, the focus on the individual seems to be alive again with the new perspectives gained from cognitive and behavioral approaches. The dominant current view has been offered by Venkataraman (1997) and elaborated by Shane and Venkataraman (2000). They define the field of entrepreneurship as the scholarly examination of how, by whom, and with what effect opportunities to create future goods and services are discovered, evaluated, and exploited. The field involves the study of sources of opportunities, the processes of discovery, the evaluation and exploitation of opportunities, and the set of individuals who discover, evaluate, and exploit them. It also concerns three types of questions for research: (1) Why, when, and how do opportunities for the creation of goods and services come into existence? (2) Why, when, and how do some people and others do not discover and exploit these opportunities? (3) Why, when, and how are different modes of action used to exploit entrepreneurial opportunities?

By defining the field of research, Shane and Venkataraman have contributed significantly to the current research paradigm. Sarasvathy (2004) contributed by raising the question “whether opportunities exist in the world and need only be recognized or discovered, or whether they are

spun into existence from within the minds of the entrepreneurs”, (Sarasvathy, 2004, p.522). In her view, we have to focus on the design of the firm and designing implies an essential role related to the tools ‘out there’ in the world, as well as, to the purely internal imagination of the designer about what to do with them. According to Sarasvathy, what is found in the world is not opportunity but rather possibility. Entrepreneurs use possibility as a tool and fashion it into opportunity through imaginative interaction both with their tools and with the society in which they live.

In the processes of discovery, evaluation and exploitation of opportunities, the individual entrepreneur or potential entrepreneur, or teams of individuals are the possible actors that make entrepreneurship a phenomenon consisting of actions. This implies that the field can gain not only from cognitive but also from behavioral approaches. The term cognition refers to the collection of mental processes and activities used in perceiving, learning, remembering, thinking and understanding, and the act of using those processes (see for more details about this topic Ashcraft (1998)). A widely accepted definition of entrepreneurial cognition refers to the knowledge structure that entrepreneurs use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation, and growth (Mitchell, Busenitz, Lant, McDougall, Morse, Smith, 2002). In short, the process of opportunity development, verification and implementation. The study of cognition is a psychological field of research based on fundamental research methods including experimental research designs. Studying entrepreneurs in a laboratory setting and applying experimental designs is not common and that implies that entrepreneurship scholars rely a great deal on fundamental psychological insights.

INGREDIENTS FOR A NEW MODEL

The resource based perspective of entrepreneurship stems from the theory of the firm of Penrose

(1959) who stated that firms evolve and perform better as their resources evolve. Entrepreneurs combine available resources and exploit them while they become organization specific resources. These organization specific resources cause the individual differences between organizations which create the firms competitive advantages. According to Penrose (1959) the availability of resources alone is not sufficient. It is the subjective aspect of the perception of the entrepreneur which make a resource a relevant input in the production process. In this way she makes the conceptual difference between a resource and a service stating that it is the services which the resources render which make resources material to the pursuit of the opportunity. The concepts of the proposed model are thus the resource inputs and the application of these which makes the resources a service and therefore an actual resource bundle in the entrepreneurial activity. Next, several aspects of this resource bundle will be presented.

ATTITUDES

From an attitudinal perspective one of the most frequently confirmed models in social sciences stems from Fishbein and Ajzen (1975). In their model behaviors can be predicted by intentions. This model, which has been based on the work of cognitive psychologists, has been elaborated by empirical results (Ajzen, 1989; Ajzen and Madden, 1986). Their model is based on the assumption that individuals act on good reasoning. It has been primarily applied to behaviors that are under complete volitional control. Volitional control means that the individual does feel he/she has complete control over their intended behavior. Intentions have been conceptualized as being a function of beliefs that provide a link between beliefs and subsequent behavior. People form attitudes toward performing a given behavior based on beliefs that demonstrating the behavior will result in certain consequences. The attitudes are also based on normative beliefs about the behavior. A person's attitude is the positive or negative evaluation of

demonstrating a specific behavior. An intention is based on one's attitude, and the attitude can be predicted by one's own beliefs and the perception of the beliefs of significant others (i.e. social norms which refer to the perception of pressure towards demonstrating the behavior). This model has been revised by Ajzen and Madden (1986) and is called the theory of planned behavior. It assumes that both intention to a specific behavioral act and the perceived self-efficacy of carrying out that act are the best predictors of the behavioral act.

The assumption that behavior is reasoned does not hold for all entrepreneurial behavior. The tripartite model of Chaiken and Stangor (1987) is therefore more suitable because it offers room for affect. According to this model, an entrepreneur will have three types of reaction to everything such as a place, a thing, an event, an activity or even an opportunity. Psychologists call these reactions affect, cognition and behavior. With respect to an opportunity this means that an entrepreneur will have positive or negative feelings toward it (affect). He/she will have beliefs and thoughts about the opportunity (cognition), developing a certain behavioral intention, and a certain way to behave towards the opportunity seeking process.

We expanded the model with the introduction of the concepts of prevention and promotion orientation, action and state orientation, and, finally, mood orientations. In the next sections we will provide our assumptions for this elaboration.

Applied to the design of an opportunity, which is the behavior, means that the intention to design and the perceived self-efficacy of designing the opportunity are the best predictors together with the orientations. Figure 1 shows the concepts that are important in understanding entrepreneurship from a human interactive approach.

In our example we use the orientations that have a direct influence on the intention of the person and on his or her attitudes. The three types of orientations and the personality variables are discussed further in the following sections, all as the less tangible aspects of available

resources.

The psychological side of entrepreneurship

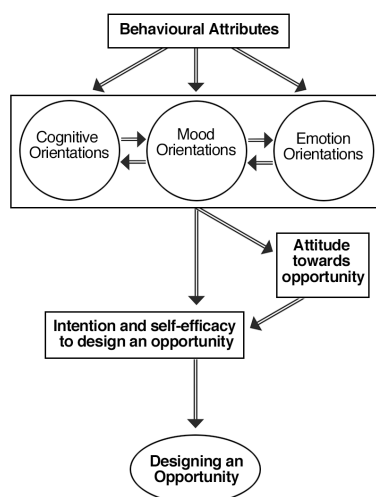


Figure 1

Source: Nandram, S.S., Samsom, K.J, 2006. The spirit of entrepreneurship. Springer

PROMOTION AND PREVENTION ORIENTATION

According to Higgins (1998), people have two basic self-regulation systems. One system regulates the achievement of rewards and focuses people on a promotion goal. In contrast, the other system regulates the avoidance of punishment and focuses people on a prevention goal. Specifically, Higgins (1998) proposes the term promotion for approaching positive outcomes and prevention for avoiding negative outcomes. Higgins (2000) also developed the concept of promotion and prevention in relation to decision-making. This can be applied to the decision of a person to design an opportunity by starting a new venture. It is not only the economic costs that counts but also the psychological costs and the question if it does fit one's values (the subjective

fit).

Higgins' theoretical views lead to the conclusion that a good decision is not simply a matter of rational cost benefit analysis or a social and rational cost - benefit analysis. There are individual differences in orientations that influence whether an entrepreneur strives for a promotion goal or if he/she strives for a prevention goal. This orientation is not a stable characteristic; it can vary for example, with the stage in of the design of the firm. A decision is a good one when there is a fit between the situation and the entrepreneur's orientation. An entrepreneur who has a promotion goal, such as a profit growth, will be motivated highly when there are opportunities to realize this goal. A lack of opportunities will only serve to frustrate, as a decision to expand is a good one and a decision not to expand is a bad one.

An entrepreneur who has a prevention goal such as not hiring permanent personnel and consciously staying small, will feel better when he/she does not need to hire permanent personnel and instead can make use personnel on an as needed basis, or do things on his/her own. Yet when he/she does not manage to do the tasks he/she is responsible for on his/her own or he/she cannot find personnel on an as needed basis, the situation will frustrate him/her. In this scenario, a decision to hire permanent personnel is not appropriate because this does not fit with the entrepreneur's orientation. As such, a decision not to hire permanent personnel is a good one. By introducing the concept of promotion and prevention orientation it is assumed that the actions of an entrepreneur can vary and therefore their decisions can vary due to their subjective orientation. These orientations can be seen as inputs in the resource based framework. The interaction of these orientations with the task requirements in this environment lets them evolve into resources.

THE REGULATION OF EMOTION AND MOODS

Manstead and Fischer (2001) defined emotion regulation by making a distinction between mood regulation (negative or positive) and the regulation of specific emotions. They see moods as broad, affective states that are primarily characterized by hedonic qualities and not the appraisal of a specific object. So someone can have a happy or sad mood due to cheerful or depressive music, whereas emotions are more specifically based on appraisals that are relevant to an individual. Emotions have a sequence of processes that are cognitive, affective, and behavioral. Emotions can be regulated by reappraising or avoiding the emotional stimulus whereas moods cannot. Individuals vary in their abilities and inclinations to engage in emotion regulation and in mood regulation. One concept referring to emotion regulation stems from Kuhl and Beckmann (1994). According to Gross, emotions have the following functions (1999).

- They tailor cognitive style to situational demands
- They facilitate decision-making
- They prepare the individual for rapid motor responses
- They promote learning
- They provide information about behavioral intentions to give clues as to whether something is good or bad and to flexibly script complex social behavior.

We focus on the cognitive regulation of emotions from a perspective of control theory (Kuhl & Beckmann, 1994), as it is a concept that could be applied to the entrepreneur. Entrepreneurs deal with several situations where emotions can run very high such as in situations of lost orders or even bankruptcy. We will discuss the action and state orientation followed by mood regulation.

ACTION AND STATE ORIENTATION

Kuhl and Beckmann (1994) developed the concept of action versus state control from the action control theory, a frequently applied approach to predict human behavior. The control theory assumes that behavior is never caused by a response to an outside stimulus. Instead, behavior is inspired by what a person wants most at any given time based on his/her fundamental or discretionary or variable human needs. This means that an individual will actively formulate intentions towards behaviors (Ajzen, 1989). This control theory is applicable to entrepreneurial behavior such as actively seeking opportunities as it implies a pro active behavior. Action control is the self-regulatory mechanism that mediates the enactment of action-related mental structures. According to Kuhl and Beckmann (1994) people differ in their disposition toward, or capacity for, action control. Those with a low self-regulatory capacity are called *state oriented* persons. Those with a high self-regulatory capacity are called *action oriented* persons; both are part of one continuum. A state oriented person has a tendency that reflects inertia to act. An action oriented person shows readiness to act. Action and state orientation was developed as a variable influencing goal-striving and it has to do with the ability to initiate and maintain intentions, the ability to make timely decisions, commit to a course of action, initiate action, avoid procrastination, handle multiple competing demands, maintain challenging goals, and persist despite failures or setback (Kuhl & Beckmann, 1994). State orientation refers to a low capacity for the enactment of action-related mental structures, whereas action orientation refers to a high capacity for this type of enactment. Action oriented persons can decrease their negative affect, whereas state oriented cannot easily decrease their negative affect. State oriented persons have therefore, a high level of negative mood.

Individuals with a strong action orientation are able to devote their cognitive resources to the tasks at hand, thus enabling them to expediently move from a present goal state to some

desired future goal state. They flexibly allocate their attention for the purpose of task execution and goal attainment. They have the ability to complete tasks after minor failures or setbacks, especially when dealing with high stress situations, uncertainties and setbacks; entrepreneurs will behave different because of the interpersonal differences in the action or state orientation. In the stage of opportunity definition the entrepreneur will benefit from an action orientation. The action orientation is a resource in the resource based framework as it is an active tendency towards an activity.

MOOD REGULATION

As stated above there is a difference between emotions and moods. A mood is continuously present and it is not easy to figure out its source. Moods have obviously less intensive appearances and moods influence behavior only in an indirect way by having influence on the cognitive processes.

A positive mood state is one in which a person feels good and therefore will act more socially, cooperatively, creatively and deal more easily with setbacks (Reeve, 2001). People with positive moods tend to have more enjoyable thoughts and memories and they act towards positive thoughts and recalls. We focus on the concept of mental fitness developed by Keizer and Vooren (2006) on the basis of the flow theory of Csikszentmihalyi (2003). The flow theory tries to explain motivation based on elements such as the feeling of enjoyment, capability of control, clearness of goals, concentration level and being in the moment. Mental fitness is a concept consisting of five facets on a continuum of negative and positive. The five facets are: self-confidence, energy, alertness, tension and satisfaction. Self confidence stems from Bandura's self-efficacy (1991), the confidence with which one can execute specific tasks to obtain a certain goal. Energy tells us if someone is capable of carrying a load. A person with low energy will not

be able to put effort in tasks and feels exhausted. Alertness refers to the level of concentration required to fulfill a task. Tension refers to the level of arousal when dealing with a task. A satisfied person will have a positive evaluation of the situation. These five concepts can be divided into three groups. The first deals with self-confidence and energy as antecedents of behaving in a certain way in given situations. Self confidence represents the cognitive aspect and energy the physical aspect of having control of a situation. The latter deals with the moment as experienced facing tension and alertness. The third category deals with the evaluation of situations based on the concept of satisfaction.

PERSONALITY VARIABLES

Personality variables may have an important role to play in developing theories of the entrepreneurial processes. They form the organization specific inputs for the resource bundles needed to direct competitive advantages. One of the first studies dealing with personality stems from McClelland (1961) who developed the concept of achievement motivation to compare entrepreneurs and non entrepreneurs. From qualitative studies he concludes that achievement motivation is a good predictor of perceived entrepreneurial success. Since that time, several studies have been conducted mainly using non-psychological measures of personality variables. As a result, many inconsistent results have been obtained leading to the conclusion that the trait approach does not have anything to offer towards understanding entrepreneurship. A recent article of Zhao and Seibert (2006) presents a meta-analytic review of the role of personality variables and entrepreneurial status. This review method tries to conclude what role can be prescribed to personality by comparing the results of various studies and taking into account the criteria of reliability and validity of measures used for personality variables. They conclude that most studies included a confusing variety of personality variables, sometimes with unknown

degrees of reliability and validity. Furthermore, often offering little theoretical justification. In vocational psychology, overwhelming evidence exists of differences in mean personality scores across jobs, occupations and work environments. Results indicate significant differences between entrepreneurs and managers with respect to personality dimensions.

The five factor model of personality has been widely accepted in the psychological literature. (McCrae, Costa, Hrebickova, Urbanie, Marin, Oryol, Rukavishnikov, Senin, 2004). Within this model personality consists of five big factors: conscientiousness, openness to experience, neuroticism, agreeableness and extraversion. Each factor, in turn, consists of several variables that document more specific traits. Zhao and Seibert (2006) conclude that this personality model brings together over 40 years of research on the emotional, interpersonal, experiential, attitudinal, and motivational style of an individual.

Therefore we are convinced that it is worth using this model for understanding the entrepreneurial processes such as for instance the design of an opportunity. In addition, during our past research efforts, we attempted to start from a dynamic perspective by simply not using the same personality factor model for entrepreneurs. We thus approached entrepreneurs by using the critical incident technique (Flanagan, 1954) for assessing the personality variables that are linked to entrepreneurial success and failures. In that study we asked entrepreneurs to think of successes and failures and then to describe their actions. From their descriptions we made a list of personality variables which we refer to as behavioral attributes inasmuch as they are derived from specific actions (Nandram & Samsom, 2000; Nandram, 2002).

In framing this list we used the big five personality factors. We developed items for each facet in our list. These items have been validated by us in several studies including the selection of the Ernst & Young Entrepreneur of the Year competition in The Netherlands. An adjusted list of items based on previous findings was analyzed using an advanced statistical method, the

structural equation model in AMOS. This analysis has resulted in a definite scale for using entrepreneurial attributes that we call the EBAI (Entrepreneurial Behavioral Attributes Inventory). It consists of seven variables that have been developed for entrepreneurs and tested. These are: achievement orientation, assertiveness, awareness, hardiness, trusting, flexibility and integrity. In the opportunity definition stage, consciousness of these attributes will help the entrepreneur.

PRINCIPLES OF SUSTAINABILITY IN STRATEGIC ENTREPRENEURIAL MANAGEMENT

As we have seen, in entrepreneurship it is the ever present opportunity promising the application of new ideas for products or services in society that acts as the driving force in an organization. Stevenson (2000) defines more entrepreneurial behavior, as opposed to a less entrepreneurial style, in terms of six dynamic dimensions: (1) strategic orientation: an entrepreneurial attitude is focused on opportunity, (2) commitment to opportunity: knowledge of market, willingness to act, (3) commitment to resources: doing more with less, (4) control of resources: access to as opposed to owning resources, (5) management structure: flexible, (6) coordination oriented, flat, reward philosophy: creation and harvesting of value.

We move on to the theme of this paper: from the people aspect to the opportunity and resource aspects. In working with the increasingly embraced concept of sustainability in business and society we will use the model of Natural Capitalsim (Hawken, Lovins and Lovins 2000). In their study they propose four principles which make an entrepreneurial opportunity a sustainable one. We have chosen this model inasmuch as it describes the contemporary challenge of sustainability and offers a clear framework for entrepreneurs to explore and pursue entrepreneurial opportunities on the intersection of economy and ecology.

NATURAL CAPITALISM

Natural capitalism offers an objective that is both economic and ecologically based, to provide structure to the concept of business and sustainability. That means, productive and consumptive processes being created and designed in a manner which fundamentally recognize that the economy is in fact limited by the physical ability of the Earth to absorb its impact. Natural capitalism is grounded in four strategies (Hawken, Lovins & Lovins, 2000). As shown below, these can be seen as updates or innovations to traditional business processes.

Radical Resource Productivity.

Here we deal with the supply side of the economy. This activity is based on values which ecology, economy and entrepreneurial activity, already have in common, i.e. doing more with less by creatively re-examining all production processes, resource inputs and their costs. Innovative design, architecture, technology, government stimulated innovation and education as well as fiscal measure to promote sustainability. If fossil fuels were to be charged at their true costs, including externalized resource depletion, pollution and health costs, alternative, ecologically clean sources would not encounter unfair price competition, an example of the tragedy of the commons! A resulting benefit of radical resource productivity would be pollution reduction. Additionally, it might provide for increased employment opportunities. Productivity increases in the range of 4 to 10 multiples are considered feasible. Taken together, these are all good things for economic health. New opportunities for entrepreneurs who, unencumbered by existing business cultures can release their creativity and drive in a market awaiting new opportunities.

Biomimicry.

It is estimated that in the U.S. only about 6% of all material flows in manufacturing

can eventually be found in the final products. Compared with production processes in nature, this appears highly inefficient. Here, Hawken, Lovins and Lovins (2000) offer a poignant note: “As long as it is assumed that there are free goods in the world—free water, clean air, hydrocarbon combustion, virgin forests, veins of minerals, large scale energy and material intensive manufacturing methods will dominate, and labor will be increasingly marginalized. In contrast, if the subsidies distorting resources prices were removed, it would be advantageous to employ more people and use fewer virgin materials.” (p.15). Think of the gigantic agricultural subsidies of the U.S. and the European Union which undermine the otherwise praised advantages of free trade. On the positive side, the explosive development of organic agriculture and foods offers a fine example. Biomimicry is thus using nature’s examples to redesign agricultural and industrial processes to lower energy input, materials use and promote material reuse. Another example would be the use of biological methods and natural flows to process sewage rather than applying large amounts of energy, building resources and chemicals to run sewage plants.

Service & Flow.

As we have seen earlier in this paper customers essentially only buy the benefits of what products and services deliver. Ownership and possession of the underlying product is not normally essential. An example is to buy services for a comfortable office or home climate, thus eliminating the need to own heating and air conditioning equipment. Anderson (1998), founder and CEO of Interface, one of the largest international companies producing floor coverings, introduced the notion of leasing and servicing carpets in tile format, extending the life of the carpet by only needing to replace the high

wear areas. This leaves the efficient operation and management of assets, including ultimate breakdown for recycling after the useful life, to the manufacturers of these systems. Manufacturers have strong motivation for the maintenance of the equipment and so lower costs and improve customer service levels.

Investing in Natural Capital.

The most important flow of ecological services which the Earth delivers to its inhabitants' industrial systems can only continue if investments are made to prevent natural disasters caused by man-made events such as global warming, deforestation, pollution, exhaustion of fresh water supplies and poverty to name some important ones. This might possibly have been demonstrated in 2005 with an all time record of hurricanes in the Gulf of Mexico and the discovery of the radical melting rate of polar ice. Investment would also be required for restoring and enlarging the stocks of natural capital to assist in the functioning of the biosphere which provides ecological services to the inhabitants of the Earth. Water conservation, wetlands restoration and sustainable forestry and reforestation projects are examples. Sustainably grown hardwoods have become a significant new market segment which supports both ecology and economy. So has emissions trading.

Judging by the increasing popularity of green new company starts, sustainable venturing may especially appeal to the creative inclination of entrepreneurs and/or to their values. Natural capitalism and sustainable venturing are thus about designing new and unexpected value chains that meet customer demands and capture their imagination in terms of image, style, social and ecological value as well as product performance. The value chain, as defined by the traditional marketing mix of product, price, place and promotion, is now combined with the product

lifecycle from all stages of manufacture or production through use and final disposal or disassembly. Not only are the physical benefits of the product or service emphasized but also those of the product life-cycle implications including the implied values of the firm taking this approach. Marketing becomes building value-based communities in the broadest sense of the word. The entrepreneur should be convinced of these values in the process of opportunity definition.

CONCLUSION

The different strategic management and psychological concepts which we describe in this paper are part of the human factor we focused on. In Figure 2 we summarize the information from our research of entrepreneurial ventures and define its research framework in order to find consistent patterns to understand the design of the resulting opportunities.

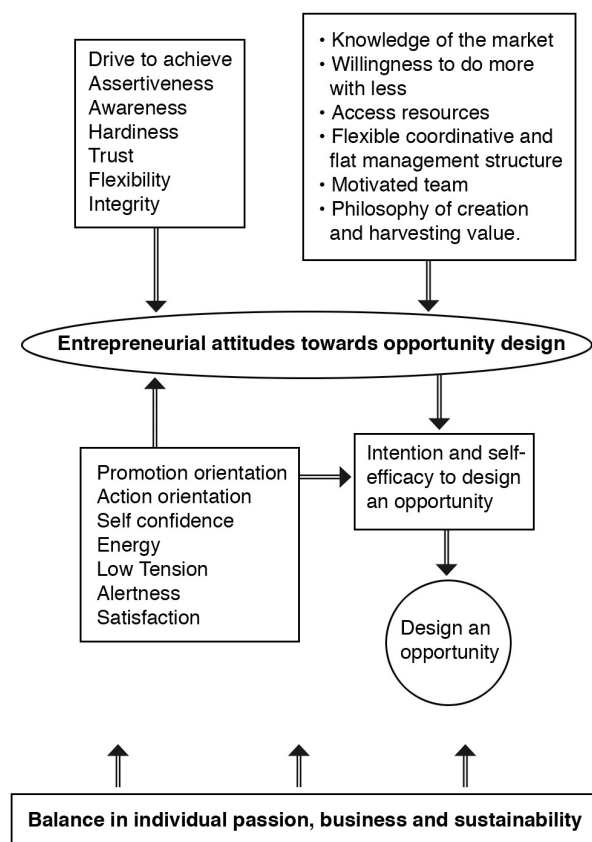


Fig. 2 A management model for entrepreneurship

Source: Nandram, S.S., Samsom, K.J, 2006. The spirit of entrepreneurship. Springer publishers.

The model describes the different human factors that might predict entrepreneurship in terms of the design of an opportunity. Outside the model there are different factors that may have an indirect effect on the act of designing an opportunity. The model focuses on an interactive attitude approach. This has many advantages in comparison with previous models which usually contain more static concepts such as organizational structure, business structure, financial frameworks, and forces from the market. This model does not ignore these types of concepts but it narrows it down to the behavior of the entrepreneur as the main decision maker in the process

of designing a firm. We claim that by focusing on processes a more dynamic view appears from which entrepreneurship will gain in practice and theory. Several inputs have been discussed as part of the resource based theory. These inputs in interaction with the environment produces the resource bundles that are needed to actually start a venture. We assume that the way an entrepreneur regulates his/her emotions will have an influence on the key entrepreneurial processes such as the recognition, evaluation and exploitation of opportunities. His/her moods will also affect these processes but also the way he/she deals with setbacks and difficulties. The decision to design opportunities will be based on a positive attitude towards entrepreneurship. An intention is not enough to start a venture. It is also the belief that he/she can really start because of having the capabilities needed. Entrepreneurship is not only about a strong will but also about the convincing belief in effectively using his capabilities. Of course the behavioral attributes, often called personality, influences the types of decisions that are taken. Last but not least, business and management insights are needed for the actual start-up. Knowledge of the market, the willingness to act efficiently, the abilities and possibilities to access relevant resources, management tasks, the ability to establish a motivated team and the belief of creation and harvesting all will encourage the implementation of an opportunity.

We see that opportunities can be discovered or imagined by anyone such as a potential entrepreneur, an entrepreneur or an entrepreneurial executive. Different psychological cognitive processes of recognition give rise to the imagination. Through experience an individual constructs idealized representation of the most typical events, i.e. a business opportunity that seems to belong together. This process is based on the human need for consistency in the opportunities they perceive. In this case, experience plays an important role in finding consistency. Another source is the mental representation of events that seem to belong together and that are stored in the memory. Investigating this ‘black box’ is out of the scope of this article,

yet this type of research will benefit from experimentally controlled designs in laboratory settings.

Finally, there is no global theory to explain all relevant phenomena for the field of entrepreneurship. The design process is not a linear process, it is rather a dynamic process of trying and learning and therefore adjusting initial intentions and self-efficacy. All the concepts mentioned in the model encourage the development of a positive attitude and therefore a positive intention and self-efficacy to design an opportunity in a career, in society, a venture or a corporate organization or in a not-for-profit organization. For the long term, a solid base is needed that occurs when there is good balance between an individual's passion, business goals and environmental sustainability.

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**SBI CONSULTING: “SMALL BUSINESS” VERSUS
“ENTREPRENEURIAL” PERFORMANCE OUTCOMES**

Matthew C. Sonfield, Hofstra University

Department of Management, Entrepreneurship and General Business
Weller Hall, Hofstra University
Hempstead, NY 11549-1340
Tel: (516) 463-5728
e-mail: Matthew.Sonfield@Hofstra.edu

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ABSTRACT

Very few small businesses become highly successful “stars” subsequent to Small Business Institute assistance. This article provides an overview of the issues of consultation effectiveness, client survival, and long-term client performance. It then presents a longitudinal case study of an extremely successful SBI client. This is followed by a discussion of the reasons why some consulting clients do not succeed while others do succeed with varying levels of performance. Finally, implications for the SBI consulting process are presented.

INTRODUCTION

University-based student consulting programs designed to assist small businesses have existed since the early 1970s. In 1972 the Small Business Institute © (“SBI”) program was established as a partnership between the U.S. Small Business Administration and a number of American colleges and universities. Over the years, this program has grown substantially. Today, several hundred colleges and universities conduct SBI or similar programs, utilizing both graduate and undergraduate students, to provide a variety of consulting and assistance services to local small businesses and other clients (Cook & Belliveau, 2006).

While a variety of studies have concluded that SBI and similar consulting programs are effective and beneficial, questions often arise as to how often and how well small business clients implement the consultants’ recommendations, and how many of these clients survive in the long run. This article provides an overview of these issues of client implementation, survival, and long-term performance, presents a longitudinal case study of an extremely

successful SBI client, and offers a discussion of the reasons why some consulting clients do not succeed while others do succeed with varying levels of performance.

MANAGEMENT CONSULTING – A REVIEW OF THE LITERATURE

Over the years of the SBI program's existence, a number of studies have been conducted to evaluate these programs' effectiveness. Many of these studies concluded that these programs were beneficial to the clients and cost-effective to the various colleges and universities and to the Small Business Administration, which in combination provided the financial and service support for the individual programs (Chrisman, 1999; Chrisman et. al., 1985; Khan & Rocha, 1982; Rocha & Khan, 1984, 1985; Nahavandi & Chesteen, 1988). Yet some of these studies met criticism, both because they were often conducted by people who had a stake in the continuation and growth of such consulting programs, and because the research methodology sometimes had serious limitations (Elstrott, 1987).

Looking at management consulting in general, much of the literature has been more skeptical of the effectiveness of such consulting. For example, Bracker and Pearson (1985), using a MANOVA-based empirical study, found no statistically significant differences in the performance of a group of companies that received management consulting assistance and another matched group which did not receive any such assistance. Soriano (2003), in a Spanish study, concluded that management consulting often provides recommendations that are basically simply common sense, but too often the consultation is requested at an early and precarious stage in the firm's growth, when subsequent business failure is more likely to occur in spite of the consulting assistance.

More broadly, Wright and Kitay (2002) report that the legitimacy of management consulting has come under attack, often due to the intangible nature of the consulting process.

They conclude that this process is often too subjective, which then leads to client doubt and non-implementation of the consultants' recommendations. And Argyris (1996) sees a general reason for the ineffectiveness of much of management consulting – the fact that the human mind is a “finite processing system,” not always capable of accepting recommendations for major change.

Looking at more specific reasons as to why management consulting may not be effective, Madison and Junell (1998) found several specific factors which can lead to client dissatisfaction, including the perceived risk and cost of the consultants' recommendations, as well as the consulting team members' personal characteristics. Kubr (2002) focused on the *implementation* of consulting recommendations as the key to successful or unsuccessful consulting. The consultants' role in the implementation of recommendations is critical, yet too often this role is not stressed or performed satisfactorily in the consulting process. And in SBI student consulting projects, the recommendations are often conveyed near the end of the semester, with little or no time available for the students to assist in the longer-term implementation.

In summary, management consulting, and especially student-based consulting, is an uncertain, subjective and precarious process, with the outcome and effectiveness often less than satisfactory.

ONE UNIVERSITY'S EXPERIENCE

The author's institution, the Zarb School of Business at Hofstra University on Long Island, New York, instituted its Small Business Institute consulting program in 1976. From that year through 1998, a period of 23 years, faculty-supervised student consultants, sometimes individually and but more often in teams of two to four students, conducted semester-long consulting projects for a total of 243 clients, primarily local Long Island small businesses but also some not-for-profit organizations, such as chambers of commerce and performing arts

centers. In 2005, an extensive search for these former clients found 73 still in business, a survival rate of 30%. As the date of the consulting assistance was anywhere from 7 to 23 years prior to this search, such a survival rate is consistent with most of the literature, which indicates that about one-half of small business start-ups survive past five to seven years (Kuratko & Hodges, 2006, p.13). Furthermore, most of these 73 survivors had remained small businesses, similar in size to what they were at the time of the SBI consulting assistance.

Yet some SBI small business clients do grow into larger businesses, and occasionally they grow into major “stars.” Most SBI directors have at least one past client that became very successful subsequent to the consulting assistance.

A TALE OF A HOFSTRA SBI “STAR” CLIENT

Kozy Shack © Inc. is a private, family-owned, dessert manufacturer with international distribution throughout much of the world, production facilities in New York, California and Ireland, over 400 employees, and continuing product line and geographic market expansion. Being privately-held, financial data are not made public, but Dun & Bradstreet estimates the company’s current annual sales volume at over \$140 million (www.hoovers.com, 2007).

Yet Kozy Shack came to Hofstra as a very small SBI client in 1978, only a few years after its founding. The history of the company is an ideal entrepreneurial success story. Vinnie Gruppuso was the founder, family patriarch, and Chairman of Kozy Shack (until his recent death in January 2008). In the late 1960s Vinnie drove a bread truck, delivering products to small corner grocery stores and delicatessens in the New York City boroughs of Brooklyn and Queens. One of his customers was a small delicatessen that made its own rice pudding, and Vinnie fell in love with that pudding. Soon he was taking aluminum pans of that pudding with him on his truck and selling them to other delicatessens. After a while his sales of pudding exceeded his

bread sales! Eventually, in the mid-1970s, Vinnie decided to take the entrepreneurial plunge. Borrowing from relatives and friends, he bought the pudding recipe along with the delicatessen's pots and pans and name, and went into the pudding business.

When Kozy Shack became a Hofstra SBI client in 1978, the entire manufacturing operation was a single room with a few large hand-stirred commercial cooking kettles and a handful of employees. Most sales were still made in aluminum pans to Long Island delicatessens, although the company was also beginning to package the pudding in packs of 4-oz. cups for sale through local supermarkets.

In 1978 a single student was assigned by the author to work with Mr. Gruppuso. After conducting a personal interview survey of about one hundred shoppers in some local supermarkets, the student's conclusion was that Kozy Shack pudding sales were growing because the taste was superior to major-brand puddings and because the product was unique in containing no preservatives. The student's recommendations were to stress the "no preservatives" on the packaging and to offer the pudding in a larger multi-serving size in addition to the 4-oz. size.

In 1991 Kozy Shack again became a Hofstra SBI client. The company had grown in the 13 years since the initial consulting project, with greater sales volume, a larger variety of pudding flavors in the product line, and the majority of sales now in 4-oz. cup packaged form sold through supermarkets rather than in pans to delicatessens. Yet the company was still a "small" business, with basically the same product (puddings only), production facilities, continued modest consumer brand awareness relative to the major national brands, and product distribution primarily in the New York metropolitan area through independent distributors. The author assigned a two-student consulting team, which conducted a more in-depth analysis than the earlier student consultant and made a variety of recommendations:

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- Conduct more formal marketing research to better understand the market(s)
 - Expand promotion, especially marketing efforts to consumers
 - Strengthen production technology
 - Identify the most profitable components of the product line (flavors, container sizes, etc.)
 - Strengthen and control the distribution channels
 - Identify new demographic and geographic market opportunities
 - Focus on sales and earnings growth
 - Evaluate institutional markets (hospitals, schools, etc.)
 - Evaluate the addition of low-calorie/diet puddings

Typical of most of Hofstra's SBI clients, Mr. Gruppuso thanked the students for their consulting report and indicated no specific or concrete intentions to immediately implement any of the recommendations. The students graduated a few weeks later, and Kozy Shack disappeared into the SBI Program's "Past Client" file.

Yet in 2006, 15 years after the second SBI consulting assistance and 28 years after the original assistance, a visit by the author to Kozy Shack found a hugely successful company, with major growth in all respects, and virtually all of the 1978 and 1991 consulting recommendations successfully implemented since then. As previously noted, the company now has large and technologically sophisticated production plants in multinational locations, over \$140 million in world-wide sales, over 400 employees, a wide variety of dessert products, and its own sizable distribution operations in the United States, providing services to other food producers along with doing all of Kozy Shack's own product distribution. With strong and proactive product development and marketing organizations, Kozy Shack continues to grow at a fast pace.

From personal interviews with Mr. Gruppuso and his top managers, it is clear that

virtually all of the 1978 and 1991 student recommendations were implemented, although Mr. Gruppuso and his managers do not remember the students or their recommendations, and do not think of their historical and current business strategy as being specifically influenced by any of these recommendations. As the author talked at length with Mr. Gruppuso, it became obvious that he would have developed his business strategy and grown his company in the way he did with or without the student consulting assistance.

WHY DO ENTREPRENEURIAL “STARS” DEVELOP?

This case study exemplifies the fact that some business owners are more “entrepreneurial” than are others. Any professional management consultant and any director or instructor in an SBI or similar student consulting program can attest that some clients are more likely to succeed than others, and that of those who are likely to succeed, only a few can be expected to become *highly* successful. Sometimes consultants and SBI directors can make a prediction after one or two meetings with the client, and in those cases “entrepreneurs” can be distinguished from “small business owners” by experienced observation.

What makes some individuals more likely to succeed than others as an entrepreneur? Over the past few decades, much research has been conducted to investigate this question, and the answer is still far from resolved. While a full discussion would be very lengthy and is not appropriate for this article, a brief summary of academic thinking on this issue would start in the 1950s and 1960s with David McClelland (1953, 1961) and others focusing on personality traits such as achievement motivation. In the 1970s and 1980s various other personality characteristics were also associated with entrepreneurial aptitude and success, such as locus of control, risk-taking, problem-solving style, innovation, and values (Brockhaus, 1982; Hornaday & Aboud, 1971; Swayne & Tucker, 1973).

During the 1960s through 1980s, a second approach to the understanding of entrepreneurial success focused on demographics (Robinson et. al., 1991). People with certain similar backgrounds were predicted to be more successful in business ventures than were others. Demographic factors such as family background, birth order, role models, marital status, age, prior work experience, and work habits were identified as predictors of entrepreneurial performance (Collins, Moore & Unwalla, 1964; Jacobowitz & Vidler, 1982; Sexton & Auken, 1982).

Both the personality traits approach and the demographic approach to explaining entrepreneurial success have received much criticism in recent years (Herron & Sapienza, 1992; Naffziger, Hornsby & Kuratko, 1994, Roberts et. al., 2007). Today no one approach or explanation is universally or solely accepted (Busenitz, 1999), and an examination of the literature will provide a variety of factors which may correlate with entrepreneurial performance. For example, Becherer and Maurer (1999) focus on certain behavioral patterns; Bird (1988) sees “entrepreneurial intention” as the most important factor; Robinson et.al. (1991) see “attitude” as the best explanation for entrepreneurial performance; Katz and Green (2007) concentrate on “the entrepreneurial personality” involving a variety of loose, non-psychological traits; and Roberts et. al. (2007, p. 5) see entrepreneurship as a “behavioral phenomenon involving “the pursuit of opportunity without regard to resources currently controlled.” Others have developed more complex models to explain entrepreneurial performance, such as Lumpkin and Dess’ (1996) “entrepreneurial orientation construct” and the “configurational approach” of Korunka, Frank, Lueger and Mugler (2003), both of which involve the total system of the entrepreneur, the company, and its internal and external environments.

CONCLUSIONS AND IMPLICATIONS

Regardless of how successful entrepreneurs are described or explained, and whether they are “made” or “born,” it is clear that some people have a better chance at such success than do others (Faris, 1999). Following the performance of Kozy Shack over the 28 years since the initial SBI consulting assistance, it is obvious that Vinnie Gruppuso was an entrepreneur, someone very different than most of the other small business owners who also received SBI assistance from Hofstra University in and around 1979. Those other clients are either still small or more likely are no longer in business. Whether Mr. Gruppuso’s success in the management of his company over time was the result of the SBI consulting assistance, his personality traits, his personal demographics, or some more complex “entrepreneurial orientation construct” or “configurational” situation, some combination of these factors is central to this success. And the absence of the right combination of factors is certainly part of the explanation for the other clients’ lack of “star” performance over the years.

If subsequent client performance and success are only partially influenced by the consulting assistance, what are the implications for Small Business Institute and other consulting programs? While SBI and similar consulting assistance can provide potentially beneficial recommendations that can lead to better small business performance, such assistance can have minimal impact on the *entrepreneurial propensity* of the client. SBI directors, instructors and students should not aim for creating client *stars* but rather should aim for client long-run survival and strong *small business* performance that meets the realistic expectations and objectives of the client. *Entrepreneurial* performance can only be expected occasionally. If a client exhibits entrepreneurial characteristics and propensity, then consulting efforts and objectives can be elevated and otherwise modified to suit this special opportunity. The SBI director can become more involved in the consulting process, the best students can be assigned to an expanded team,

other faculty and university resources can be brought into the consulting case, and an overall extra effort can be expended. Certainly *star* potential is a rare and exciting occurrence in any SBI program and every effort should be made to take advantage of the opportunity.

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

**Christopher Achua, University of Virginia's College at Wise
Robert N. Lussier, Springfield College**

ABSTRACT

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

INTRODUCTION

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

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

A discussion on the evolving definition of social responsibility is beyond the scope of this paper. Carroll's (1977, 1979) view that social responsibility is about a business's economic, legal, ethical and discretionary obligations to society is the accepted model for this paper.

Carroll's four components embody various views of earlier researchers who attempted a definition of the concept (Backman, 1975; Davis, 1960; Eells & Walton, 1961; Friedman, 1962; Hay, Gray, & Gates, 1976; McGuire, 1963).

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

RESEARCH QUESTIONS

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

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

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

BACKGROUND

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

In the Fall semester of 2005, the first SBI entrepreneurship class was launched. As the semester came to a close, the student venture had generated enough revenues for the students to recover their investment of \$1,900.00 and earn a profit of \$2,200.00. Hurricane Katrina and its aftermath was still the story of the day. Most people were very concerned of the on-going suffering and hardship of the victims. It was at this point that a student presented the class with a proposal; "how about we donate all the money to the Red Cross to help Katrina victims."

Sensing that some of the students were uncomfortable debating the issue, the professor decided to conduct an anonymous survey to see where each student stood on the issue. It occurred to the professor that this was really an issue of one's discretionary social responsibility orientation. The students were not required by economics, law or ethics to give away all that they had earned in the venture. However, some had the desire to do it and others did not. This was equivalent to a corporation's management team debating not just whether to give but how much to give to social causes in the society.

The question is posed, are educators training and graduating future business leaders who are inclined to exhibit greater or less concern for discretionary social responsibility. The same data has been collected from every graduating class of business majors for the past three years. Like 2005, this year the data was collected against the backdrop of a tragedy, the VA Tech shootings.

LITERATURE REVIEW

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

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

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

Recent events involving unethical and even illegal conduct among business executives have renewed everyone's interest in the subject of social responsibility and ethics. Many have wondered if corporate leaders are simply selfish, amoral persons who, due to their huge bank

accounts and power, could care less of their responsibilities to stakeholders (Baglione & Zimmerer, 2003). In the academic community, business schools have attempted to address this negative perception by incorporating more social and ethical issues into the curriculum (Davis & Welton, 1991; Greenman & Sherman, 1999; Trevino, 1992). The primary objective is to increase students' awareness of the importance of ethics and corporate social responsibility in business.

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

METHODOLOGY

DESIGN

Base on the literature review and the objectives of the study, a questionnaire was designed to measure the variables of interest. The survey included gender, age, marital status,

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

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

SAMPLE

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

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

STATISTICS

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

RESULTS

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

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

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

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

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

DISCUSSION

In this study, the majority of business students believe in the discretionary social responsibility component of CSR. Only 13% of the respondents said they did not believe companies have a responsibility that goes beyond earning a profit for their shareholders. This result is consistent with previous research. Ibrahime and Angelidis (1993) found that business

students are more ethically and philanthropically oriented than top business executives. Some may argue that this is a predictable outcome given that business students are removed from the pressures of the market places and that overtime, given the opportunity to function in the “real world,” students’ attitude towards discretionary social responsibility may change (Sonnenfeld, 1981). However, others would argue that an educational curriculum that emphasizes the obligation of business to act for the social good sensitizes students to such issues (Purcell, 1977, Vogel, 1987). As students enter the workforce and ascend the corporate ladder to leadership positions, they may follow-through on their core beliefs and direct their organizations towards more socially responsible actions.

The implications of this result for business educators is that this generation of students is more receptive to the concept of CSR and more should be done to incorporate CSR in the business school curriculum. It is imperative that educators continue to emphasize the value and impact of discretionary social responsibility to society. It is quite possible that today’s students will exercise more discretionary actions to address society’s problems/needs than the present generation of leaders. It is also possible for the reverse to happen. Working in an organization where the culture is incompatible with their values, these students may be socialized to align with the organization’s values.

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

A surprising finding was that exposure to a national tragedy, such as Hurricane Katrina or the Virginia Tech massacres did not influence students’ discretionary social responsibility

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

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

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

CONCLUSIONS

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

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

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

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Estimating Demand Potential and Marketing Small Business Workshops

Don Sciglimpaglia
Department of Marketing
San Diego CA 92182
(619)-594-54435
dsciglim@mail.sdsu.edu

Howard Toole
School of Accountancy
San Diego State University
San Diego CA 92182
(619)-594-5328

ESTIMATING DEMAND POTENTIAL AND MARKETING SMALL BUSINESS WORKSHOPS

ABSTRACT

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

INTRODUCTION

The discipline of business education is in a period of major and pronounced change. Those critical of traditional academic approaches have challenged academia to make significant improvements to increase the relevance of what is taught and to improve the quality of graduates. These challenges stem from more systemic critiques of business education in general (Aistrich, 2006). In recent years, academic programs in business have come under fire for being too passive, for possessing too many artificial boundaries between disciplines, and for being too instructor-directed. Often businesses, particularly small businesses, criticize business education as being unresponsive to its needs.

As a result of these criticisms, many business schools have developed programs with a number of dimensions: 1) students working with local businesses, 2) professional development

workshops or 3) self-help programs directed at local business markets. A typical academic response has been student team-based consulting programs. In fact, a number of AACSB schools have programs that involve students in delivering some form of field-based consulting into their curricula. Many leading MBA programs, including Duke University, University of Chicago and the University of Virginia, have instituted such programs (West and Aupperle, 1996). The students, as teams, work on company problems and are supervised by both faculty and business managers (Byrne, 1992). Undergraduates are often involved in similar programs through programs such as the Small Business Institute. The increased use of field-based consulting has enabled business programs to bridge the gap between academic learning and applied practice in organizations, which has enhanced the learning experience for students and provided a beneficial community service to firms (see Doran et al, 2001). In addition, Ames reports that field-based consulting is consistent with recent AACSB calls for the enhancement of experiential learning in higher business education (Ames, 2008). Field-based consulting programs are also common in business or commerce programs in other countries, such as in Australia (see Henderson et al, 2003 and Whittenberg et al, 2006).

These types of “out-of-classroom” programs have high value to both students and local businesses. Most research has indicated that they generate high levels of student satisfaction. Daly and Mitchell (1995) note that since business students tend to be more applications oriented, they want more “skill building” from the curriculum, rather than mere “book learning.” They concluded that students enjoyed the hands-on nature of field-based projects and benefited from the opportunity to learn about the complexity of businesses. Similarly, a review by Weinstein, Nicholls and Seaton (1992) evaluated business client perception based on four dimensions—professionalism, knowledge, practicality, and overall value. Their study concluded that businesses had generally favorable perceptions and asserted that such consulting activities

improved their marketing activities by providing firms with objectivity and planning insight.

In addition to field-based consulting, another approach to achieving a business school's mission is to offer professional development workshops or self help programs through a variety of delivery mechanisms. Such presentations could be presented to local small businesses by combinations of students, faculty members and professionals. In other countries this is fairly commonplace. For example, Autio and Klofsten (19998) present an extensive review of infrastructure support provided in the EU to SMEs, including various forms of technical assistance, technology development and dissemination initiatives. Gibb (1996) and Wahlgren and Stewart (2003) show that business schools in the UK are playing an increasingly important role in small business research and assistance. Likewise, Al-Qirim (2006) discusses the efforts of the government of New Zealand to offer help to SMEs in that country to assist them in adopting e-commerce. Henry et al (2004) discuss the results of a longitudinal study of firms in Ireland which suggest that a range of qualitative and quantitative outcomes may result from training programs. Perhaps the most interesting example is reported by Jones and English (2003). They describe the development of a program in Australia in which students are directly involved in the delivery of entrepreneurial education. At the same time in Australia, Billett et al (2003) reports that small businesses often are neither attracted to nor value the kinds of courses that are the standard pedagogic practice, highlighting the need for alternative delivery formats. In addition, the internet represents a new source for potential delivery of consulting or training services (Evans and Volery, 2001).

The current study reports on a market study designed to evaluate potential demand for workshops that could be presented to local small businesses. In particular, the objective of the study was to determine the needs of local small businesses regarding interest in professional development workshops and to determine the optimal design and delivery of such a program.

Interestingly, relatively little has been written on small business workshop design and, particularly, on estimation of workshop demand. Mueseler et al (2000) assessed the design and impact of a series of small business workshops designed to be delivered to agricultural entrepreneurs. While that study is interesting, it focuses primarily on program assessment rather than on design.

The present study was conducted in conjunction with the local chapter of the Service Corps of Retired Executives (SCORE) and was, in fact, part of a student field-consulting project. Nationwide, SCORE has approximately 12,000 volunteers in 389 chapters. Roughly 50% of SCORE revenue (nearly \$1 million annually nationwide) is generated from workshop attendance. The local chapter of SCORE had seen declining attendance rates for its workshops, which were typically priced in the \$30-40 range for half-day sessions. Nearly 50% of its operating revenues is derived from the workshop program. This represents the single greatest source of revenue, so fine-tuning the product offering is an important factor. Total workshop attendance averaged about 150 per month, with attendance per workshop having recently declined from 21 to 17 participants

RESEARCH OBJECTIVES AND METHODOLOGY

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

- Identify the local small business target market
- Determine the target market's ideal workshop characteristics
- Determine the preferred marketing methods to reach this market

Primary research consisting of a focus group and a mail survey was conducted to identify a

typical local small business profile and to determine small business owners' ideal workshop characteristics with respect to workshop content, context, and pricing. The primary research survey was conducted via a self-administered mail survey and was designed as a single mailing with a business reply response format. Budget limitations prevented the use of multiple mailings or incentives. A qualified list of 6,144 local small businesses was randomly selected from a California Data Solutions (Cal Data) database of 70,000 businesses of 20 or fewer employees. By the cut-off date, 314 questionnaires were returned, representing a 5.4% response rate. Given that this was a single mailing (no pre-announcement, follow-up questionnaire or reminder) and that no respondent incentive was included, this response rate is typical for commercial mail surveys of this nature.

RESULTS

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

Q1 Type of business

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

Q2 The company was started

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

Q3 The number of employees in company

| Number of Employees | Responses | Percent |
|---------------------|-----------|---------|
| 1-2 people | 118 | 38% |
| 3-4 people | 66 | 21% |
| 5-7 people | 42 | 14% |
| 8-10 people | 0 | 0% |
| 11-15 people | 19 | 6% |
| 16-20 people | 13 | 4% |
| 21 more people | 52 | 17% |

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

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

Q5 The workshop most recently attended was offered by

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

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

| Value | Responses | Percent |
|------------------------------|------------------|----------------|
| Very good value (7) | 35 | 37% |
| Good value (6) | 24 | 25% |
| Only somewhat good value (5) | 20 | 21% |
| Neutral (4) | 13 | 14% |
| Only somewhat poor value (3) | 0 | 0% |
| Poor value (2) | 3 | 3% |
| Very poor value (1) | 0 | 0% |

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

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

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

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

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

| Workshop Size | Responses | Percent |
|-----------------------------|-----------|---------|
| Seminar (20 or more people) | 87 | 29% |
| Group (8-19 people) | 142 | 48% |

| | | |
|--------------------------------------|----|-----|
| Small discussion format (3-7 people) | 47 | 16% |
| Other | 22 | 7% |

Q10 “I would like the workshop to last _____ “

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

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

| Workshop Day | Responses | Percent |
|--------------|-----------|---------|
| Monday | 36 | 13% |
| Tuesday | 56 | 20% |
| Wednesday | 64 | 23% |
| Thursday | 30 | 11% |
| Friday | 31 | 11% |
| Saturday | 67 | 24% |

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

| Workshop Time of Day | Responses | Percent |
|----------------------|-----------|---------|
| Morning | 116 | 38% |
| Afternoon | 55 | 18% |
| All day | 49 | 16% |
| Evening | 34 | 11% |

| | | |
|---------------|----|-----|
| No preference | 49 | 16% |
|---------------|----|-----|

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

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

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

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

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

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

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

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

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

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

OVERALL SUMMARY OF KEY FINDINGS

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

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

workshop. The top three preferred media for contacting potential attendees would be direct mail, fax and e-mail. Given the high rate of prior attendance of workshops sponsored by trade or business sources, a key marketing activity would be to co-market with such partners.

The results of the survey were projected to the 70,000 Cal Data businesses with 20 or less employees. Roughly 30% of respondents had attended at least one workshop over the prior two years, translating to 60 paid workshops per month. Results of the survey showed the price of the ideal half-day workshop to be \$50 to \$100. Therefore, small business programs at universities and SCORE compete for a substantial market. Using \$75 as a mid-point price, these results suggest that a total market of roughly \$1.8 million exists among those target firms. But, SCORE (3%), SBA (5%), SBDC (3%) and university programs (7%) currently constitute a relatively low share of market.

Another important dimension of estimation of workshop demand and resultant marketing is to understand how that demand varies by type of firm or industrial sector. Table 1 shows the results of preference for a selected set of workshop topics by industry category. On one hand, the results are fairly consistent, with the services category being a prime target, with preferences ranging from 25.9% to 37.5% by topic. However, that table shows how demand preferences vary markedly by topic in the market studied. For instance, software training appeals to a relatively broad cross-section of firms. Conversely, import/export appeals to a very narrow set (service companies, retail and wholesale distribution).

Table 1: Preference for Key Workshop Topics by Type of Business Category

| Category: Type of Business | Software Training | Internet Use | Business Plan | Growing Business | Advertising Promotion | Marketing Strategy | Sales | Export Import |
|-------------------------------|----------------------|-----------------|------------------|---------------------|--------------------------|-----------------------|-------|------------------|
| Retail | 13.9% | 15.0% | 7.0% | 13.8% | 18.2% | 9.1% | 6.0% | 15.4% |
| Technology | 1.3 | 0.0 | 2.8 | 2.1 | 2.3 | 2.3 | 1.9 | 3.8 |
| Construction | 11.4 | 7.1 | 11.3 | 6.4 | 4.5 | 5.7 | 5.6 | 7.7 |
| Communications | 2.5 | 5.3 | 1.4 | 2.1 | 4.5 | 2.3 | 0.0 | 0.0 |
| Restaurant | 0.0 | 1.8 | 4.2 | 4.3 | 1.1 | 1.1 | 0.0 | 0.0 |
| Finance | 2.5 | 0.0 | 0.0 | 1.1 | 1.1 | 0.0 | 3.7 | 0.0 |

| | | | | | | | | |
|----------------------------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Manufacturing | 12.7 | 8.0 | 5.6 | 9.6 | 4.5 | 8.0 | 11.1 | 3.8 |
| Wholesaling | 1.3 | 5.3 | 8.5 | 8.5 | 3.4 | 5.7 | 11.1 | 11.5 |
| Insurance | 3.8 | 2.7 | 4.2 | 4.3 | 3.4 | 3.4 | 5.6 | 3.8 |
| Services | 26.6 | 35.7 | 31.0 | 27.7 | 33.0 | 37.5 | 25.9 | 34.6 |
| Real estate | 2.5 | 5.3 | 11.4 | 3.2 | 2.3 | 3.4 | 3.7 | 0.0 |
| Other | 21.5 | 23.9 | 22.4 | 17.0 | 21.5 | 21.5 | 20.4 | 19.2 |
| Base: number of selections | <i>100</i> | <i>113</i> | <i>71</i> | <i>94</i> | <i>88</i> | <i>88</i> | <i>54</i> | <i>26</i> |

CONCLUSIONS

Responding to the need to align academic programs with needs of local business constituencies, many universities have developed an array of student consulting and outreach programs. Although student projects and consulting (e.g., SBI programs) are more traditional, professional development programs present another potential area of application. This study found a high degree of interest by small business in workshops with the proper content, length, time of presentation and cost. Thus, a substantial market presents itself to universities that choose to deliver the content using various delivery mechanisms. How to foster the active involvement of students in the delivery, while maintaining a perception of expertise, is a challenge to the educational institution (see Jones and English, 2003 and Mueseler et al, 2000). If successfully solved, this will benefit the university as well as the small businesses. Although the study was conducted within only one geographic area, care was taken to make sure that the sample was representative of the small business population in California. Thus, it is highly likely that the results of the survey may be generalized to many other geographic areas and universities.

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