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Dear JBE Readership:

Welcome to the fall 2016 issue of the *Journal of Business and Entrepreneurship*. There is GREAT NEWS to announce!! The Journal has been officially accepted into the international ranking system of SCOPUS. This involved a two year process of quality review by SCOPUS culminating in our selection. What does this mean for the future?

First, all of the hard work in making this happen will result in providing our loyal authors—those that took a chance on using us as their publishing option—greater support in their promotion and tenure aspirations. It also provides considerable national and international exposure thus increasing the number and quality of the submissions to follow. Finally, it is a great reward for all of those that have given their time and energy to maintain the quality of our 27 year existence.

There is also additional news related to the Association for Small Business and Entrepreneurship (ASBE). The Executive Committee as endorsed by membership at the last conference have decided to join the Federation of Business Disciplines as a conditional member at that organization’s next conference (Albuquerque, March 2018). We are very excited to be a part of the long history of FBD and feel strongly that this will further advance JBE through this outreach effort.

Also, if you haven’t submitted a manuscript to JBE recently (or ever) please consider us as a potential research outlet for your next manuscript. While we are excited about being a part of SCOPUS, we see this as only the beginning of our future growth.

*William T. Jackson (Bill)*  
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COMPLEX START-UPS: A THEMATIC ANALYSIS INTO ENTREPRENEUR-OPPORTUNITY FIT CONCEPT

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ABSTRACT

Entrepreneurial research has provided scant insight into how the entrepreneur views the fit between themselves and the opportunity they are pursuing. This study provides the first empirical exploration of this fit by interviewing entrepreneurs that have launched ventures in the complex market of craft brewing. The thematic analysis provides an inclusive and holistic research approach in which the emergent themes show that entrepreneurs do actively perceive the fit between themselves and the opportunity. They must also reassess this fit frequently in order to evolve and adapt to market forces that change the opportunity and gaps between the two, such as knowledge, skills, and abilities, the opportunity itself, and fit implementation, develop.

Keywords: Entrepreneur, opportunity, fit, complex start-ups, complementary partners, thematic analysis, branding, production, artisan, mentor, qualitative analysis

INTRODUCTION

For several years, a central question in entrepreneurship research has been: How do entrepreneurs think? (Mitchell et al., 2007). A central component of this question then becomes: do entrepreneurs consider the fit between themselves and the actual opportunity? If entrepreneurs do consider the fit an equally important follow-on question is then, what do they do if the fit is not perfect? These questions and the factors that are considered as the evolution of the start-up takes place, provide important insights into how entrepreneurs position themselves and their companies to best achieve success.
The term *fit*, largely explored in the management literature, is continuing to grow and gain ground within the entrepreneurship literature (Hurt & Serviere-Munoz, 2011; Markman & Baron, 2003; Prottas, 2011). *Fit* has been addressed as the match between self-description and entrepreneurial role (Farmer, Yao, & Kung-McIntyre, 2011), person and environment (Johnson and Wu 2012), motivation and goal (Zhao & Wu, 2014), entrepreneur and culture (Rozell, Scroggins, Amorós, Arteaga, & Schlemm, 2010), human and social capital (Hsiao, Hung, Chen, & Dong, 2013), entrepreneur and partner (Thorgren, Wincent, & Örtqvist, 2012), and family and firm (Zellweger, Nason, Nordqvist, & Brush, 2013). Even the “person-organization fit” scheme has been expanded into entrepreneurship (Brigham, De Castro, & Shepherd, 2007) where the entrepreneur’s personality is accounted for as well (Dvir, Sadeh, & Malach-Pines, 2010). Furthermore, *fit* in entrepreneurial research has been studied at macro levels such as government policy (Lang, Fink, & Kibler, 2014; Williams & Dzhekova, 2014), formal institutions (Welter & Smallbone, 2011), as well as in other business areas such as human resource practices (Leung, Zhang, Wong, & Foo, 2006) and marketing (Hallbäck & Gabrielson, 2013).

The extant literature focuses on the fit between the entrepreneur and a variety of self, organizational, and external factors; however, one area that has received little, if any, empirical examination is the fit between the entrepreneur and the opportunity. Understanding this fit is important because opportunity recognition, as a central theme of entrepreneurship research (Baron, 2004; Shane & Venkataraman, 2000), is one of the first elements in the entrepreneurial process. After all, to become an entrepreneur, the individual needs to actively identify opportunities and derive a plan to execute the opportunity chosen (Farmer et al., 2011). What attention entrepreneur-opportunity (E-O) fit has received to the best of our knowledge is from a conceptual perspective (Hurt & Serviere-Munoz, 2011; Markman & Baron, 2003; Prottas, 2011; Serviere-Munoz, Hurt, & Miller, 2015). Thus, we believe it is of great value to explore empirically whether, and to what extent, the individual considers the notion of their fit to the opportunity when planning and launching new ventures.

Understanding E-O fit increases in importance within the context of start-ups that are complex in both the normative and industry environments and require large capital investments. These factors create a more challenging decision as to whether the entrepreneur is a good fit to the opportunity and if they should move forward with venture creation. A market that experiences these complexities and can be a challenging decision of an entrepreneur’s fit is the
craft brewing industry. This industry has experienced an explosion of new ventures within the past decade as evidenced in the Dallas-Fort Worth metroplex. In the past four years, the market has gone from two breweries to 38 with another 20 slated to be opened in the next few years (Texas Breweries Listing). The entrepreneurs launching these ventures are faced with many decisions on whether they should pursue the opportunity. Given the knowledge required, as well as the significant capital amounts that typically exceed $1 million (Nicastro, 2015), their decision of if they fit the opportunity is not an easy one. Indeed, the depth of this issue cannot be isolated to an item or two within a study and needs to be approached in a holistic manner (Chaganti, Chaganti, & Brush, 2014) so that results that capture the dynamic nature of start-up activities can be obtained (Park, 2005).

The purpose of this paper will be to explore and describe the start-up process of complex, capital-intensive firms in a holistic manner, specifically, entrepreneurs involved in the craft beer industry. In addition, we intend to discover whether the entrepreneur’s fit with the opportunity itself was considered as part of the start-up decision process. To do so, qualitative interviews of the owners of craft breweries that opened in the Dallas-Fort Worth area in recent years were conducted. Furthermore, this paper stands at making several contributions to the entrepreneurship literature. The first is the initial empirical investigation of E-O fit models that up to now have been limited to conceptual accounts. Second, by selecting qualitative interviews as the research method, we offer detailed descriptions, integrate multiple perspectives, and describe the process (the series of events) of E-O fit in complex, capital intensive start-ups. Third, the qualitative interviews provide inclusive, holistic information that can ultimately lead to refinement and clarification of our understanding and future research schemas.

The paper is organized as follows. First, the theoretical foundations of the concepts making up the E-O fit model are introduced. Then, the methodology section addresses the approach undertaken in which issues such as sampling, interview method, and analysis are reported. Last, a discussion of the findings along with suggestions for future research and limitations are addressed.

THEORETICAL FOUNDATIONS: THE SCOPE OF THE ENTREPRENEUR - OPPORTUNITY FIT MODEL

Fit, deeply embedded in the management, as well as organizational psychology research streams (Edwards, Cable, Williamson, Lambert, & Shipp,
2006), is a notion that has been described as a good match, usually in terms of high compatibility, between a person and a concept (Hurt & Serviere-Munoz, 2011). Within entrepreneurship, there is the unequivocal notion that “fit matters” (Naman & Slevin, 1993, p. 146) as it is an important factor in new venture performance (Baron & Ensley, 2006) that leads to venture success (Markman & Baron, 2003). In addition, fit has been linked to venture survival as it is dependent not only on strategic choices and environmental forces but on the degree of fit between the entrepreneur and the environmental forces as well (Aldrich & Martinez, 2001).

Furthermore, fit quantifies the match between a person and a specific construct such as cognition, environment, job, organization, opportunity, or entrepreneurship (Kristof, 1996; Markman & Baron, 2003; Young & Hurlic, 2007). However, within the fit stream, the concept of entrepreneur and opportunity being a good match has only been presented on a conceptual basis. Thus, the current study focuses on exploring the notion of E-O fit, defined as the match between an individual actively seeking to create a new venture (entrepreneur) and the venture selected (opportunity) (Hurt & Serviere-Munoz, 2011; Serviere-Munoz et al., 2015) from a qualitative standpoint to explore the bases of such concept.

E-O fit is sustained from the notion that both the entrepreneur and opportunity are essential as they must be a good match in order to qualify as a good fit (Hurt & Serviere-Munoz, 2011; Serviere-Munoz et al., 2015). This notion emerges from the standpoint that just as types of individuals are interested in and attracted to different types of organizations (Schneider, 1987), individuals can also be attracted to different types of opportunities (Markman & Baron, 2003). E-O fit then has been proposed to occur when an entrepreneur’s characteristics, such as knowledge, skills, abilities, and resources are closely matched to the characteristics of the opportunity, such as resource requirements and market realities. The E-O fit then leads to a greater likelihood of venture success (Hurt & Serviere-Munoz, 2011; Serviere-Munoz et al., 2015). More importantly, by jointly considering the entrepreneur and the opportunity, the E-O fit concept is in line with the notion that fit theories, when in an entrepreneurial setting, should account for new venture formation (Hurt & Serviere-Munoz, 2011; Markman & Baron, 2003) along with external factors (Aldrich & Martinez, 2001; Markman & Baron, 2003).

From the entrepreneur’s side, the E-O fit concept calls for addressing knowledge, skills, and abilities (KSAs) as these form the “entrepreneurial
mindset” (Mitchell, Smith, Seawright, & Morse, 2000) that influences intentions and decision processes (Shook, Priem, & McGee, 2003). Such an entrepreneurial mindset is acquired through knowledge structures that entrepreneurs develop which, in turn, allow them to handle entrepreneurial information better than non-entrepreneurs (Ericsson, Krampe, & Tesch-Römer, 1993; Glaser, 1984; Mitchell et al., 2007). In addition, asking for capital, managing the start-up process, hiring and motivating employees, and effectively connecting with partners to develop a business network (Markman & Baron, 2003), as well as with customers to create profitable long-term relationships, are skills and abilities needed as they can influence whether an entrepreneur matches the venture (Serviere-Munoz et al., 2015). The entrepreneur then must determine whether the psychological and social characteristics, along with the technical and managerial skills possessed, can provide direction to the venture (Sexton & Bowman, 1985).

To further compliment the entrepreneur’s side, an individual must preferably possess an ability for opportunity recognition and access to resources. Opportunity recognition, usually operationalized as an individual denoting alertness (Baron & Ensley, 2006), access and use of information (Baron & Ward, 2004; Shane, 2003), previous knowledge of the field or industry (Shane, 2001), and pattern recognition (Baron & Ensley, 2006) has been linked to greater entrepreneurial success (Markman & Baron, 2003). In turn, access to resources has also been linked to greater venture creation and success as resources are deemed essential to sustain a venture (Aldrich & Martinez, 2001). The access and availability of resources, such as human, financial, and capital can also serve additional purposes to the entrepreneur such as helping to work and develop their idea (Farmer et al., 2011), motivating, and even protecting them when rough times are faced (Aldrich & Martinez, 2001).

From the opportunity’s standpoint, the literature has established that the actual opportunity, along with opportunity recognition, are key concepts as their fit with the entrepreneur can largely impact venture success (Baron, 2006; Baron & Ensley, 2006; Hurt & Serviere-Munoz, 2011). It is important to note that each opportunity has its own characteristics and unique nuances (Shane & Venkataraman, 2000); thus, each must be carefully considered. Furthermore, the literature has also proposed that within opportunity research variables, such as being receptive to and being able to recognize opportunities (Baron & Ensley, 2006), access and better use of information (Baron & Ward, 2004; Shane, 2003), previous knowledge or experience in a field or industry (Shane, 2001), a clear grasp of market realities such as size, timing of entry, and adaptation (Baron &
Ensley, 2006; Davidsson & Honig, 2003; Lilien & Yoon, 1990; Markman & Baron, 2003), prior start-up experience (Davidsson & Honig, 2003; Farmer et al., 2011; Serviere-Munoz et al., 2015), and cultural fit (Rozell et al., 2010; Serviere-Munoz et al., 2015), can have a significant impact on E-O fit and consequently on venture success. Thus, their inclusion of how the entrepreneur fits with them matters. The approach taken then is that the likelihood of venture creation and success is enriched when the right person has a strong fit with the right opportunity (Hurt & Serviere-Munoz, 2011).

**METHODOLOGY**

**Sample**

Within qualitative research, a common sampling approach is to pursue a *purposive* sample, where the aim is to obtain an insightful and thorough understanding of the topic of interest. The specific selection of cases, known as purposive sampling (Braun & Clarke, 2006), purposeful sampling (Weiss, 1994), or criterion-based selection (LeCompte & Preissle, 1993), is a well-established strategy used to assist the researcher in identifying cases that will be able to provide a rich account of the phenomena being investigated (Weiss, 1994). In addition, purposeful sampling allows dissimilar forms or cases present in the larger population to be captured to *maximize range* (Weiss, 1994). To be able to maximize range, the researcher must establish a priori criteria of what constitutes infrequent types or significant variation. These criteria might include “filter” questions, contrast in significant independent variables, and contrast in context. Therefore, based on an academic and practitioner-based literature review of complex start-ups, the following criterion were established to select cases that maximized range: a) capacity size (achieved by including ventures ranging from 150 to 26,000 barrels yearly), b) firm age (achieved by including ventures that go from pre-launch stage to established firms), c) market distribution (the sample captures all three approaches available to ventures of this type: on premise consumption only, self-distribution, and third party distribution), and d) start-up amount (the sample contains ventures that started with $150,000 to $1.5 million).

We selected the craft brewing industry due to its high capital and resource requirements and compliance with a myriad of laws and regulatory requirements. The definition of a craft brewer, according to the Brewers Association, is a small, independent, and traditional producer of beer and ale. More specifically, a craft brewery has an annual production of six million barrels or less, an ownership interest of less than 25% from an alcoholic beverage
industry member, and the majority of its total beverage alcoholic volume comes from beers whose flavor was derived from traditional or advanced brewing ingredients and their fermentation (Craft Brewer Defined). The initial equipment set-up can range from $100,000 to $1 million or more. Among other costs and issues, new craft breweries have to rent or buy their production location, apply for permit requirements, choose a corporate structure, have an operating agreement, and insurance (Nicastro, 2015), while also focusing on human resource, production, marketing, distribution, and, accounting matters.

In Texas, the Brewer's Association shows a total of 274 craft breweries (Texas Breweries). Based on the a priori criteria above, a total of 14 craft breweries were interviewed. The sample denotes a 5% of the total breweries opened and operating in Texas and 35% of the Dallas-Fort Worth market. The participants that were interviewed had ownership interest and were highly involved in the day to day operations of the brewery.

Data Collection

Semi-structured interviews and document review were the qualitative research techniques employed. The use of these techniques has been successfully used in entrepreneurial research to provide a rich understanding of entrepreneurs’ experiences (Tello, Yang, & Latham, 2012). The objectives of the semi-structured interviews were used to arrange the interview themes. These objectives aimed at exploring and describing, in a holistic manner, how and to what extent the entrepreneur’s and opportunity’s characteristics were considered to be a good fit by the individual when deciding to pursue the venture. In addition, to gain an understanding of how E-O fit evolves and is influenced by four themes: a) the entrepreneur’s KSAs, opportunity recognition, and resources, b) the entrepreneur’s resources of planning, their network, and the market realities, c) the extent of perceived fit and did they consider this fit in their decision, and d) previous start-up experience.

In order to get as close as possible to the “truth” of the object of this study, two triangulation methods were employed, in which two or more data sources or data collection methods are employed to examine the phenomenon in question (Braun & Clarke, 2006). Following Tello et al. (2012), the two principal investigators (PIs) were involved in conducting and coding each interview. In this way, investigator triangulation was used to reduce researcher bias by involving more than one observer in data collection and interpretation (Bøllingtoft, 2007). The second triangulation of inter-method was used to
confirm the findings and reduce misinterpretation by comparing multiple data sources (Bøllingtoft, 2007). Thus, the information obtained from the semi-structured interviews was corroborated through the review of relevant documents (Tello et al., 2012; Zellweger & Sieger, 2012) such as articles published by various public and private entities, marketing materials, and social media.

The semi-structured interview guide, as well as the PIs involved in the process, received approval of the Institutional Review Board before conducting any activity that required human participation. For most of the interviews, two PIs were present. Prior to starting the interview, all respondents were provided with a consent form outlining the protocol of the interview. The interviews lasted between 55 and 75 minutes and were recorded with a digital recorder and then transcribed by two graduate research assistants. As part of their instructions, they were asked to accurately transcribe the interviews and, whenever there was a word or sentence that they could not understand, to mark within the word document the time that the unintelligible audio occurs so that either one of the PIs could go back and revise it. Once the interviews were transcribed, two PIs went back and checked for accuracy. A coding software was not employed as the nature and number of interviews was manageable between the PIs.

**Data Coding and Analysis**

The qualitative method selected for this study was thematic analysis (TA), one of the most used methods in qualitative research. TA identifies themes and patterns of meaning across a dataset based on a research question (Braun & Clarke, 2006). Among its strengths, TA offers flexibility as it can be employed to answer almost every type of research question. Themes can be acknowledged from either a “top-down” fashion, where the researcher uses data to examine some theoretical ideas, or from a “bottom-up” fashion - the one adopted for this paper - on the basis of what is found in the data (Braun & Clarke, 2006).

A good and sound TA is a four step process in which appropriate criteria has been followed. The process involves transcription, coding, analysis, and written report (Braun & Clarke, 2006). When addressing transcription, the study aimed to transcribe the data to an appropriate level of detail and the transcripts were checked against the audio files for accuracy by both PIs. Regarding coding, each data item was given equal importance during this stage. The transcripts yielded a range between 12 to 16 initial codes, yielding over 160 initial codes for all 14 interviews, which denotes the coding process was thorough, inclusive, and
The themes were checked against each other and back to the original transcript to offer themes that are logical, consistent, and distinctive.

The analysis involved making sense of the data and interpreting it as it was not used to simply paraphrase or describe the data. The goal of the analysis was to tell a coherent story that was well organized, while balancing an analytic narrative with illustrative excerpts. As a further reliability test, a member check was conducted where the analysis was shared with some of the interviewees so they could comment and provide suggestions for improvement or additional details (Zellweger & Sieger, 2012). The interviewees had minor suggestions and most of them took the opportunity to add richness to the narrative by providing additional stories or anecdotes. Last, the written report has as its objective to use language that is specific and provide a good fit between method and the reported analysis, while positioning the researchers as active members of the process (Braun & Clarke, 2006).

ANALYSIS AND DISCUSSION

In this section, we proceed to analyze and discuss the findings obtained from the semi-structured interviews and the documents reviewed to compliment this research. Overall, regarding E-O fit, the data show three general themes denominated as KSAs gap realization, opportunity-gap realization, and fit implementation. Within each theme, several subthemes emerged as well. The KSAs gap realization theme consisted of multiple gaps, mentorship, and evolution and adaptation subthemes. In turn, the opportunity gap realization was structured by the subthemes: use of information, revised opportunity, artisanal to production strategy, and branding. Last, the fit implementation theme was formed by the evolution of self and complementarity subthemes. These themes, their subthemes, as well as their facets can be found in Table 1.
Table 1
Frequency of Themes and Subthemes

<table>
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<th>Themes</th>
<th>Subthemes</th>
<th>Facets</th>
<th>Frequencies</th>
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<tr>
<td>KSA - Gap Realization</td>
<td>Multiple gaps</td>
<td>Previous start-up experience</td>
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<td>I to we partnership</td>
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<td>Mentorship</td>
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<td>Evolution and adaptation</td>
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<tr>
<td>Opportunity - Gap</td>
<td>Use of information</td>
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<td>Realization</td>
<td>Revised opportunity</td>
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<td>Business plan change</td>
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<td>Artisanal to production</td>
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<td>Branding</td>
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<td>Expression of self</td>
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<td>Fit Implementation</td>
<td>Evolution of self</td>
<td>Initial assessment</td>
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<td>Team realization</td>
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<td>Hiring</td>
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First Theme: KSAs-Gap Realization

The entrepreneurial literature has established the key role that KSAs have in influencing decision processes (Shook et al., 2003) as they alter how entrepreneurs process information in what has been denominated an entrepreneurial mindset (Ericsson et al., 1993; Glaser, 1984; Mitchell et al., 2000). Ultimately, the entrepreneur has to take an active role in identifying whether he or she possesses the KSAs that provide a successful direction for the venture (Sexton & Bowman, 1985). The analysis reveals that entrepreneurs involved in complex ventures acknowledge this gap and that it comes as an internal realization that a gap exists between what they need to and what they actually know in terms of KSAs. Specifically, some entrepreneurs referred to this gap as knowing your “known unknowns”. Entrepreneurs must be aware that there are KSAs that are needed to run the business yet, they do not have them. The analysis uncovered this realization is fueled by three distinctive subthemes: *multiple gaps, mentorship, and evolution and adaptation*. See Figure 1 for a representation of this theme and its subthemes.
Multiple gaps

This subtheme was centered around the realization that entrepreneurs did not have the necessary KSAs to launch a brewery on their own. A large portion of this gap was due to the breadth and depth of KSAs required and due to the complexity of the market and regulatory environment as “running a brewery is about 5% brewing” (Interviewee 4). Regardless of the reason, they were challenged from the outset to identify what their known-unknowns were and to prioritize the closing of these gaps. Previous start-up experience and the need to go from an “I to we” partnership are the facets the shape the KSA gap realization.

It was found through the interviews that the entrepreneurs were confronted by KSA gaps that spanned many aspects of the business. However, many of the gaps were known from the outset and the entrepreneur had the belief that these gaps could be addressed during the start-up process. This is evidenced by Interviewee 2’s opinion of other start-ups, “That does not mean that those people who are starting those breweries have the skill set to run a successful business.” This opinion is partially supported by the fact that only three of the
interviewees had previous experience starting a business. However, it did not deter them from pursuing the opportunity because they believed that these gaps were not insurmountable. Their previous experience did alter the way resources are configured and managed. For example, having a more well-rounded previous experience can position entrepreneurs to “stretch their dollar” and help them to “get up and running” (Interviewee 1). Specifically, we observed that having a well-rounded previous experience encompasses not only knowing the line of work in which the new venture will occur but also experience in day-to-day operations, such as plumbing, electrical, and machine installation; an issue in which Interviewee 1 felt has significantly helped them to overcome set up costs.

As one of the more successful entrepreneurs summed up, “Most people that are starting a brewery have never worked in a brewery before” (Interviewee # 11) or “they know how to write the recipe and how to brew, but they have never done it on a large scale so they don’t have those advantages” (Interviewee # 1). Interviewee 11 had done an apprenticeship at another local brewer and admitted that he was also part of this same group. In general, knowing that they did not have as much experience as they wanted drove them to find other sources of knowledge. This finding was further corroborated by examining the companies’ histories published on their websites.

A key portion of addressing their gaps was the “I to we” facet that was uncovered as the majority of the entrepreneurs, 8 of 14, sought out partners that helped them address their KSAs gaps. The remaining hired for key required KSAs, most commonly a head brewer, before launch. This gap was not due to their lack of previous brewing knowledge, as all but two had extensive home brewing experience. The typical rationalizations were that they needed to focus on other aspects of the business or that they knew that their experience would not translate well to a production setting. As noted by Interviewee #11, “There are so many moving parts that you are learning something new every day.” Similarly, Interviewee #4 highlights that, “Great beer is about ½ of 1 percent of what is needed to be successful.”

The narrative confirmed the existence and role described by the interviewees using adjectives such as committed, partner, and team, to describe the relationship. Furthermore, social media accounts also denoted a team language in which the “we” and “team” concepts were also present. Moreover, becoming aware that there is a need to go from an “I to we” partnership aids in more quickly identifying the KSAs gap and closing it. The entrepreneurs understood that they alone were not capable of undertaking the opening of a
brewery by themselves and that they needed to think of the launch in terms of ‘we’ instead of ‘I’. For many, it happened as the “convergence of two paths” (Interviewee 10) which occurs as the result of seeking out people interested in the same venture which occurred to Interviewees 1, 4, 10 and 11. While for others, it was the natural step after years of friendship and home brewing together such as Interviewees 5 and 9. For Interviewees 6, 7, and 12 partnerships were found within family members as they wanted to launch a “family based” business.

**Mentorship**

Selecting partners or hiring for key personnel allows the entrepreneurs to address many gaps, but they also found that they needed advice that was best attenuated through a mentorship. The roles of the mentor spanned many needs with some providing support, especially during the development of the venture and others acting as long-term advisors. Often times, as stated by Interviewees 4 and 7, their value resides in talking “to guys who have done it before.” On rare occasions, mentors become part of the venture due to the relevance of their background outside the brewing function. Their value was evident due to the years of experience they brought from areas, such as operations management and business development, as expressed by Interviewee 6 “(he) was the vice-president of manufacturing in the U.S. and globally he has put up a lot of factories... So he was much more familiar with contracts and buildings and what to look for.” In addition, mentors were used to help understand where future gaps in KSAs might be and to help in proactively addressing them. As stated by Interviewee #4, “I knew what my weaknesses were ... I did not know portions of this business so I sought out mentorships.” One interesting note is that the entrepreneurs interviewed often used other breweries in their market as mentors during their venture creation. Then, as part of the unwritten rule of reciprocity, they act as mentors for the breweries that are exploring venture creation. One of the most common forms of mentoring was sharing of the business plan so that capital and other critical elements of the start-up decisions could be made with more certainty.

**Evolution and adaptation**

Another key component of addressing KSA gaps extends from the start-up gaps to those that are uncovered from experience or from a changing competitive landscape. For instance, as Interviewee 3 realized during the start-up process, “(You can) not have what they call home brew... (You have to) really
dial in your recipe and really dial in your process to make the best possible beer that you can.”

The entrepreneurs’ KSAs gaps are a constantly evolving issue during venture creation and beyond. This evolution calls for growth and progress that will lead to adaption to the changing conditions faced from conception to establishment of the venture. Evolution and adaptation become complimentary of each other if the entrepreneur was to truly respond to venture and market conditions which were unequivocally voiced as leading to stronger ventures. Interviewee 9 pointed out that as the venture evolved and matured now he “has been able to shift our portfolio to the product that takes longer and invest in the structure of the barrels.” Furthermore, even when the entrepreneur perceives not to be adept enough for the venture, this individual must seek what is missing, and then process to evolve and adapt, as stated by Interviewee 3, “I was pretty green just like anybody my age... We were all so inexperienced we didn’t know what to do but we learned quickly... and I continue to learn.”

Another aspect of the evolution is the dynamic market place in which four years ago there were two entrants in the market and now there are 38 (Texas Breweries Listing). However, the deeper issue is probably more aligned with the lack of previous brewery and start-up experience, which forces the entrepreneurs to continuously evaluate the gaps that might inhibit them from reaching their next set of goals. This issue is clearly captured in the statement Interviewee #13 made, “We constantly talk about reinventing ourselves. We’ve probably done it four or five times since we’ve started.”

Second Theme: The Opportunity-Gap Realization

The cognitive process of being able to identify an opportunity is a key element that enables the entrepreneurs to recognize that opening a complex and capital intensive venture, such as a brewery, is a feasible idea. The opportunity itself, along with the recognition of it, is regarded as a highly important element conducive to entrepreneurial success (Aldrich & Martinez, 2001; Baron, 2006; Baron & Ensley, 2006). In addition, opportunity recognition is positively augmented when the entrepreneur possesses a strong understanding of market realities, such as the need for adaptation (Davidsson & Honig, 2003; Farmer et al., 2011) and alertness (Baron & Ensley, 2006), has access to information (Baron & Ward, 2004; Shane 2003), and is capable of pattern recognition (Baron & Ensley, 2006) as the opportunity and environment evolve. See Figure 2 for a representation of this theme and its subthemes.
The opportunity-gap realization emerged as one of the key aspects of the entrepreneurs identifying the potential gap between what they perceived as what the market wanted and what was being provided. This theme has several subthemes related to the use of information, revised opportunity, an artisanal to production strategy, and branding. These subthemes complement the larger opportunity-gap realization as they call for an entrepreneur who is required to be able to adapt to the change and shift in market forces, make the decision of what type of production philosophy would be best received, and the best way to brand their products in an increasingly crowded market.

Use of information

One of the key aspects of being able to recognize the opportunity was the subtheme of access and use of information from a variety of sources. It was strongly supported by all of the entrepreneurs as a rationale for entering into the market. According to Interviewee #4, “I knew I had to be here. This was the place that afforded the greatest opportunity for success.” The data show that all interviewees identified that the DFW market is the fourth largest in the country with regards to population but has the lowest concentration of craft breweries and a below-average consumption of craft beer. Through a variety of trade
groups, they had access to these data for other areas of the country as well as the overall trend of craft beer consumption. Thus, they viewed this opportunity as one that could be taken advantage of, but they became aware that because of the dynamic marketplace in which many other entrepreneurs had the same opportunity recognition, they had to make adaptations throughout the venture creation as new information became available. “Research! Research! Research!” was Interviewee 10’s best piece of advice for new entrants, which can come in many forms. The ways of conducting research and using information significantly varied across members with two common themes. First, the use of information is vital for venture well-being and survival. “It’s information. We are all kind of scientists and we like to experiment and figure it out” (Interviewee 7). Second, research ought to be obtained via direct interaction with the industry and often times your competitors. A large number of interviewees had been apprentices under other area breweries, “We talked with the brewers, we went on a tour, and just asked a ton of questions. Then we’d go to another brewery, we’d go to wineries, see their equipment and their process... and then started reading” (Interviewee 12).

Use of information also enabled many to fund the venture more appropriately as production ramped up. Not using information adequately was also identified as a factor that either slowed down the success of the venture or significantly hindered it. This lesson was strongly emphasized by Interviewee 2, “I have done the math, you can’t make it. You just can’t make it with a 3½ barrel system. About the smallest system you could try to profit with, in my opinion, is probably 7 barrels. So they are 50% of the size to make the profit. I just saw one of those put their 3 ½ barrel system for sale... It didn’t last long.” Furthermore, as some of these ventures matured, their improved cash flow allowed to be better positioned not only to understand data but to access it more easily as now they could afford it, “As you get older, as a company and have better cash flow and better financials, you got the ability to go out and buy market data” (Interviewee 3).

Adaptation

As our interviews progressed we observed the typical time from opportunity identification to the delivery of the first batch of product was two years. This delay was due to a number of reasons such as time to raise the required capital, zoning and sight selection, ordering and delivery of equipment (over 6 months), regulatory paperwork, and other start-up related activities.
During this time, we also uncovered the best way to take advantage of the opportunity would change as market forces, such as opening of competitors, changing laws and regulations, and consumer preferences, evolved. Thus, given the strong use of information, brewery entrepreneurs realized that they needed adaptive plans on how to best meet a changing market. Hence, the *adaptation* subtheme emerged.

Such a need to adapt was consistently represented in most of the cases by a revision of the business plan. When questioned if they had completed a business plan, 12 of 14 responded that they had completed one before venture creation. The two that did not create a business plan had previous brewery start-up experience and used that to guide them. Those that had completed one responded that their plans were typically off by a great deal in areas such as their hiring plans, sales growth, and timing of the launch. However, even with the inaccuracies of the plan, the process of creating it was invaluable as it forced the entrepreneurs to acknowledge all the aspects involved in creating such a complex venture. As Interviewee #14 stresses, “*Writing the business plan will make you tackle the most difficult questions that you would like to ignore or sweep under the rug. Those are the most important ones. The reason you don’t want to answer those is because they are going to say, ‘maybe you shouldn’t do this.’*” The overall lesson became that being open to an adaptation of what was originally written was essential to proceed with the venture.

**Artisanal to production strategy**

The third subtheme addressing the opportunity-gap realization was the aspect of deciding where on the spectrum of artisanal versus production strategy the venture will be. Due to the high capital requirements of the business, this decision needs to be made before the initial capital funding from investors is made. As Interviewee #4 stated, “*It is a volume business.*” If the initial capital assessment does not provide adequate funds to position the brewery to reach its needed economies of scale, then the venture is at a competitive disadvantage. In addition, the cost structure of procuring the raw materials, as well as the bottles and cans, is based off minimum order quantities and volume discounts as required by suppliers, further reinforcing the need to understand where the brewery will be positioned on the artisanal-production spectrum.

Evolving from an artisanal to production strategy also drives the KSAs that will be required; thus, it affects the type of partner and/or hires that are required from the outset as the skill sets required to be artisanal are different
from those to run a production-oriented brewery. More specifically, interviewees denoted that experimentation should be encouraged, “In order to make quality beer and to make interesting beer, you have to have a blend of art and science. Craft has to have artisanal sensibilities in order to have innovative products. There is a very high demand from the consumer for what’s new? What’s next?” However, there is a balance as they continued with, “We have to break this constant production of new beers sometime though because we can’t make any more beers” (Interviewee #11). Thus, understanding this issue from the outset is a critical element in the brewery being successful. Interestingly, one should not assume a production mindset precludes experimentation with new recipes or techniques to keep up with a changing consumer; an issue clearly understood by one of the breweries perceived as highly oriented to a production strategy, “Our head brewer is a trained brewer, but he is still a chef at heart. We get these great beers that are not traditional” (Interviewee #13).

Branding

An improved or better understanding of what the venture’s artisanal versus production balance would be leads to the fourth subtheme: the acknowledgement of how this decision affects the branding of their products. Unequivocally, the branding of the product is an important decision from the outset of the venture where one of the key decisions involved is how to position the product in the market. Positioning creates the image that a brand will have in a consumer’s mind. In this case, entrepreneurs discerned between being a venture that utilizes traditional recipes or one that is brewing newer styles and trying to stay up with the latest trends in the market. Positioning the product then is a matter of perception. The analysis reveals the entrepreneurs had a clear grasp on positioning and branding. Some of them wanted to “be the beer that you want to drink even when your friends aren’t watching” while others understood they had to continue to position the beer as a fresh product that evolves and remains interesting as “consumers are not loyal. They are loyal to craft beer...They are promiscuous and they want to have a little bit of everything” (Interviewee #13).

A second facet was the influence that the entrepreneur’s personality has on branding. Our analysis reveals that many entrepreneurs build their brands after their personalities, preferences, and backgrounds, thus making branding an expression of self. From a planning standpoint, branding is seen as an invaluable tool as Interviewee #4 stated, “Volume is built by the keg, but the brand is built by the bottle. The best companies, the strongest companies must be able to
articulate what they were all about, were built from the ground up through brand strategy.” At the execution point, the brand is the result of personalities and preferences. As articulated by Interviewee #9, “You can see me and what I like in the brand’s name and its personality. It all based on my favorite themes, even the beer’s names and colors are me and what I like.” This facet is further supported when we compared the interviewees’ personalities to their brand and marketing materials. As part of the interviewing process, the PIs would get to know the participants and their personality. When reviewing the marketing materials such as the brand’s positioning (the perception the brand wants to convey to consumers), packaging materials (such as cans and six-pack containers), labels, and websites our sample denotes that they were a clear fit back to the entrepreneurs, their backgrounds, and preferences. It becomes clear the brand was an extension of the entrepreneur’s personality.

Third Theme: Fit Implementation

Recently, Chaganti et al. (2014) concluded that an entrepreneur’s mental fit in small firms should be embraced from a holistic perspective where the quality of the opportunity, resources, and quality of the team were proactively managed. The degree of fit and its proper execution matters because if the opportunity selected is not a strong match with the individual, then the new venture could increase the likelihood of failure (Hurt & Serviere-Munoz, 2011). E-O fit is considered to be adequate when the degree to which the entrepreneur’s characteristics match those of the opportunity (Hurt & Serviere-Munoz, 2011; Serviere-Munoz et al., 2015). However, issues, such as limited knowledge and timing in complex environments, can significantly prevent success (Hoffrage & Reimer, 2004), highlighting then the importance of the evolution of self and complementarity subthemes that our analysis revealed. See Figure 3 for a representation of this theme and its subthemes.
Evolution of self

Even after the initial gaps are addressed, there is the continuing issue of the growth of the company and the changing opportunities which generate the need for more assessments of the gaps. All of the respondents were asked if they had thought they were a good fit for the brewing business prior to the creation of the venture and all responded that they had. However, they all agreed that after an initial assessment, which usually occurred either during the planning or venture creation stages, a revised notion emerged where the shift must be “from me to team.” This evolution of self towards a team structure becomes particularly apparent when the entrepreneurs acknowledge that they did not have previous start-up experience, so they had to quickly adapt themselves to the opportunity. To adapt and thus improve fit implementation, the prevailing notion was the focus on hiring a team that fitted the opportunity. According to Interviewee #13, “Knowing when to do it yourself and when to hire the expert is a difficult decision and sometimes you learn the hard way…. It is always a balance between what I should do and what I should hand-off.” This same interviewee further emphasized this point by adding, “Having a strong team is critical. At the end of the day you have some equipment. It doesn’t create recipes or sell anything.” Similarly, Interviewee #14 mentioned, “I address my weaknesses. I
either improve upon that weakness myself through education or I develop someone underneath me that shows an ability to handle it better that I would have handled it.”

Complementarity

As previously mentioned, one of the key aspects of the venture creation was the ability to find complementary KSAs. All of the respondents indicated that finding complementarity in either their partner(s) or their key hires was important to the business as it improved fit. As Interviewee #1 states about his partner, “All of the things that he is really good at just happen to be the things that I wasn’t good at and vice versa. So together it’s almost like the perfect team. It’s uncanny, really it is.” In part, we assess that this is due to complexity of the daily operations, such as having someone that knows how to schedule the logistics of deliveries or having an in-house creative person that can manage the branding of the product. As highlighted by Interviewee #9, “We always knew that he would be the head brewer ... I was always trying new things and handing it off to him and I deal with everything on the front end.” In agreement with the vital role of complementarity towards fit Interviewee #11 adds, “We’ve hired well. We hired people with more experience right off the bat that had a lot more experience than me.”

CONCLUSION

This paper contributes to the understanding of how entrepreneurs view and adapt themselves to an opportunity by providing the first empirical exploration of the fit between the entrepreneur and the opportunity pursued (E-O fit). While these two elements of fit are important components of the entrepreneurial process (Shane, 2003; Shane & Venkataraman, 2000), how the entrepreneur views their KSAs, the opportunity, and the gaps between them has received little attention (Hurt & Serviere-Munoz, 2011; Serviere-Munoz et al., 2015). In addition, we adopted a qualitative approach, which due to its thoroughness in the methodological practices applied (sampling, coding, secondary data, and triangulation), helps further the validity of qualitative approaches in entrepreneurship research (Rauch, Doorn, & Hulsink, 2014).

The richness of the data clearly uncovered that entrepreneurs engaging in complex start-ups perceive the importance of and actively manage the fit between themselves and the opportunity: the KSAs-gap realization. The realization of the gap between KSAs required by the opportunity and those that
the entrepreneurs possess leads them through multiple waypoints that call for adaptation on their road to success. Specifically, entrepreneurs seek mentorship and go through the evolution and adaptation where an “I to we” partnership emerges. Their view evolves to acknowledge the need for and seek the complementarity of a team that will help them to launch and run the venture. In addition, E-O fit has a significant impact on venture creation as the entrepreneurs must identify how to address their fit through partner selection and hiring. Besides showing the KSA gap realization which resides within the entrepreneurs, the study also uncovered the opportunity-gap realization which focuses on the actual opportunity or prospect for a venture. The study contributes to the identification and understanding that this gap captures the use of information, the reality of a revised opportunity, the search for balance between an artisanal to production strategy, and a branding approach. From a marketing perspective, the study indicates that entrepreneurs position and brand their ventures after their personal preferences and personality. The brand becomes an expression, and thus an extension, of self. This finding supports the notion of creating a branding image that stands on its own due to its originality and uniqueness; strongly positioned to carve a unique niche in the marketplace. The last theme, fit implementation, settles the previous themes by capturing the need for an evolution of self and complementarity with others to execute fit. The facets involved denote a personal introspection and growth within the entrepreneurs as these complex ventures mature.

Overall, When the three themes of KSA gap realization, opportunity gap realization, and fit implementation are viewed together, it is evident they are interrelated and center around how an entrepreneur continuously adapts their knowledge, and that of their team, to the opportunity to create the best fit possible. These themes are evident throughout the venture creation process as the entrepreneur must first identify the opportunity and then use information to determine how best to structure their production and branding strategies. It becomes clear E-O fit is a dynamic concept as entrepreneurs cannot have a static understanding of how they fit the opportunity as market forces are continuously changing. Thus, fit calls for an adaptation and evolution of the entrepreneurs, from “I” to a “we,” as they seek out complementary skills in partners and employees to succeed in their ventures.
LIMITATIONS AND FUTURE RESEARCH

This study focused on questioning entrepreneurs to providing a retrospective look into their experiences and perceptions when creating and launching a complex venture and while enlightening, the approach does not allow to fully convey how the themes and subthemes that emerged develop and evolve overtime. Thus, following Terjesen and Sullivan (2011), the use of longitudinal design could be adopted in future research.

The findings of our thematic analysis on complex start-up ventures allow us to put forward several possibilities for future research. First, the paper provides the foundation for an important stream of research into how entrepreneurs perceive and adapt to opportunities. Further study of the relationships and the themes that emerged is needed to expand upon not only E-O fit (Hurt & Serviere-Munoz, 2011; Serviere-Munoz et al., 2015), but on how fit can change over time and how the entrepreneur adapts and evolves. Future studies will need to continue exploring complex start-ups, as well as extend the topic to a variety of venture creations (and industries) to create a cohesive understanding of how entrepreneurs and opportunities fit.

Our findings also denoted the existence of two major gaps, KSA-gap realization and opportunity-gap realization, as the entrepreneur embarked on launching and growing complex ventures. We propose this type of research can be investigated outside the complex ventures framework. It would be interesting to explore whether the same themes and subthemes emerge or unrelated themes take a larger precedence. Additionally, entrepreneurs engaged in smaller ventures, such as those ranging from 500 employees to self-employment, should be accounted for. The role of the mentor, and his or her involvement, experimentation, and team realization are themes that can be further explored using qualitative evidence to learn about their development, organization, and influence on smaller ventures. Furthermore, whether focusing from a complex or smaller approach, factors that promote or act as barriers from a qualitative standpoint are worth investigation to learn how they evolve and impact the creation, launch, and growth of the venture.

While the birth and growth of a venture is exciting, we also call for attention to the investigation of failures from a qualitative approach to enrich our understanding and serve as a catalyst to provide guidelines that prevent pitfalls that could have been avoided by learning from others. Research focused on failure of complex start-ups can also provide alertness to identify red-flags to
prevent and correct action. At the same time, whether focusing on the evolution of themes from complex to much smaller ventures or on failure, the importance of the case study should not be overlooked. While the great majority of research is formed by quantitative studies in entrepreneurship research, the case study needs to be considered especially when focusing on evidence-based entrepreneurship (Rauch et al., 2014). As we argue, its richness, as well as methodological practices (such as coding, triangulation, and use of secondary data), can become a worthwhile tool to enhance our understanding of venture creation, launch, success, and failure.

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Identifying Fertile Ground: Peripheral Stakeholder Contribution to a Healthy Entrepreneurial Ecosystem

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ABSTRACT

High-growth entrepreneurial ventures can be the engine of economic growth, but need the support of a diverse and well-integrated entrepreneurial ecosystem in order to succeed. Sufficient resources from multiple stakeholders in the local environment are necessary in order to maintain and grow these ventures. The presence of peripheral stakeholders such as small non-scalable businesses are proposed as critical to the success of entrepreneurial activity. Therefore, peripheral stakeholder needs must be considered. Suggestions are made for engagement of all entities in a conversation about how to identify and nurture a fertile ground for development and growth. To start, all the various resource providers who depend on entrepreneurial activity should identify niche players who may have chosen to stay small.

Keywords: entrepreneurial ecosystems, economic garden, economic development

“Entrepreneurial success does not take place in a vacuum. Entrepreneurs exist in the context of their particular geography.” (Acs, Szerb, & Autio, 2015)

INTRODUCTION

The origins of entrepreneurship as a source of economic growth can be traced back to Joseph Schumpeter’s 1934 treatise on economic development, within which he challenges a static view of economic process and encourages economic vitality through the creation of new ventures. In his view, it is the entrepreneur who performs this needful disruption of economic equilibrium through the reconfiguration of existing resources and the activation of new methods of production for new markets (1934). In 2015, the global economic challenges include the need to maintain or increase productivity while simultaneously creating jobs that can gainfully employ a growing world population (Acs et al., 2015, p. 1) and, as Schumpeter suggested, it’s the
entrepreneur that’s increasingly become the designated engine of economic growth (Bachenheimer, 2015).

As one example of an economic challenge, the Bureau of Labor Statistics estimates that the United States lost over 7 million net jobs from December 2007 to December 2009 (Headd, 2010). Since then, economic recovery in the U.S. has become partly dependent on how well businesses can create jobs. The U.S. Small Business Administration notes that small businesses account for over half of the private-sector workforce, and that entrepreneurial startups, especially those engaged in technology research and development, might ultimately become responsible for a significant amount of economic activity (SBA, 2012). It’s also widely believed that entrepreneurial ventures, especially those in rapidly growing industry sectors, can inspire spill-over innovation, leading to increased employment, productivity, and growing economic prosperity for entire communities (SBA, 2013). However, many caution that appropriate support needs to be given to help these new ventures succeed (Harrison, 2013; SBA, 2012, 2013) and that success, however it may be defined, is dependent on the local environment, or the specific “geography” that provided the initial conditions for development to occur (Acs et al., 2015).

Regarding support mechanisms, some regions that are interested in attracting new ventures to spur local economic growth have adopted the suggestions of those such as Isenberg (2010) who outlined the elements necessary for an integrated and presumably productive “entrepreneurial ecosystem”, or follow Brad Feld’s suggestion for building a vibrant and self-perpetuating “startup community” (2012). Using the example of successful “startup communities” in regions known for innovative activity, such as California, Texas, and Colorado (Kauffman, 2011) other states and communities are trying to find and mentor first-time entrepreneurs, with the hope that new venture growth will have a lasting and positive regional economic impact.

However, multiple regional reports indicate that each community is unique, and that economic success might be dependent on local resources (Motoyama, Konczal, Bell-Masterson, & Morelix, 2014). To take advantage of local assets, some economic development strategists have employed the concept of “economic gardening”, providing support to the small, local businesses native to the existing ecosystem rather than trying to attract larger firms from the outside (Barrios & Barrios, 2004). But, regardless, within each community there need to be sufficient resources and stakeholders with the willingness and attributes necessary to take advantage of the “fertile ground” that exists.
(Auerswald, 2014; Mason & Brown, 2014). This desire for economic growth using an entrepreneurial approach therefore requires an understanding of these local conditions, and an appreciation for the interrelatedness of elements in the overall “ecology” that exists in the local environment.

These concerns – the need for economic growth, the need for local adaptation, the need for sufficient resources and support mechanisms that can be activated to encourage entrepreneurial ventures – are important enough that they have generated increasing interest in both the academic and policy-making communities for research aimed at understanding how entrepreneurial ecosystems actually work (Auerswald, 2014; Autio, 2014; Fritsch & Storey, 2014; Motoyama & Watkins, 2014). Certainly key elements of the ecosystem still need to be identified and examined, and those who have a stake in economic success, and a role to play in its achievement, become important participants in the process, deserving of more investigation.

For instance, in one view regarding various elements or potential stakeholders in a regional entrepreneurial environment, Feld, describing the success of the Boulder, CO ecosystem, suggests that startup communities are more easily created if there are “anchor” tenants, firms/industries in the community, ones that have an existing economic impact. In addition, Feld suggests a startup community create activities that engage the “entire entrepreneurial stack” from aspiring to experienced entrepreneurs who can act as mentors; service providers such as lawyers, accountants, and marketing professionals; students and those with academic or specific discipline expertise; and other interested parties such as corporations who hope to benefit from new knowledge or new business, and venture capitalists or bankers who see an opportunity for profit (Feld & Kaplan, 2012, p. 19).

In addition, to nurture entrepreneurial activity overall, evidence suggests the need to involve these stakeholders: 1) businesses and university systems that circulate significant financial, human, and social capital; 2) responsive government that provides supportive infrastructure, investment linkages, and a friendly regulatory environment; 3) supportive service resource providers (i.e. lawyers, accountants, consultants); and 4) an entrepreneurial culture that includes a critical mass of mentors and role models. Sometimes quality-of-life amenities are also mentioned as necessary (Auerswald, 2014; Mason & Brown, 2014).

These are all important assets, but, in many cases, the growth of a successful entrepreneurial ecosystem can sometimes create economic imbalances and social inequities (Mason & Brown, 2014). As the garden grows, what about
nurturing the development and growth of small service businesses (i.e. dry cleaners and delis), often run by families, and what happens to the members of a sometimes ethnically diverse unskilled labor pool? These groups might not be the ones to create startups with high-growth potential, but it can be argued that their presence is critical to the support of entrepreneurial activity. How are the needs of these peripheral stakeholders being acknowledged?

This paper is meant to further the discussion by focusing on just one aspect of the local entrepreneurial ecosystem: the degree to which small peripheral stakeholders provide key support to this ecosystem. Although researchers acknowledge the importance of multiple and diverse stakeholders to the success of an economic (Mason & Brown, 2014), when discussing an entrepreneurial ecosystem little attention has been paid, so far, to the role of those arguably peripheral stakeholders such as those small businesses, service support entities, not-for-profit niche mission-driven organizations, low-wage workers, and members of family businesses who have no intention of scaling or expectations of growth beyond their founding profiles.

The discussion in this paper unfolds as follows: first, the relevant terms will be defined, and selected theoretical frameworks will be identified as helpful guides to further investigation; second, relevant analogies and examples of how various communities have coped with local conditions will be shared; and, finally, suggestions for how to proceed with this investigation will be proposed to policy-makers, researchers, and community stakeholders.

DEFINITIONS AND THEORETICAL FRAMEWORKS

“We cannot easily pin down specific market failures in entrepreneurial ecosystems because they are so complex. They incorporate many different stakeholders who interact in myriad different ways.” (Autio, 2014)

An Ecosystem.

Ecosystems involve interconnecting and interacting parts, that come together in a coordinated way, forming what can be a complex yet unitary whole, and can be used to describe the interaction of a community of organisms with their environment. From multiple disciplines, the concept of an “ecosystem” has gained in popularity as a descriptor for degrees of growth, development, and healthy functioning: biologists talk of environmental ecosystems, economists
study ecological economics, and organization theorists speak of population ecologies.

Addressing issues of economic development, policy makers and researchers worldwide are increasingly discussing the impact of “entrepreneurial ecosystems”. This research has shown that entrepreneurs from around the globe, especially savvy ones, assess the “health” of a given entrepreneurial ecosystem before they decide to enter. Major conditions and resources of major interest include access to the targeted market, availability of skilled labor, and indicators that key resource providers such as banks or other financial investors are willing to be involved.

Other elements that have been identified as conducive to entrepreneurial development and growth include the presence of large companies, supportive government and local regulatory policies, an infrastructure that includes adequate transportation and broadband communication and information technologies, access to educational institutions providing all levels of instruction (including K-12) and intellectual capital, and a community of other entrepreneurs or service providers who can provide mentoring, inspiration, support and general networks of comradery among various members of both the local and extended resource environment (Anderson, Chernock, & Mailloux, 2006; Drabenstott, Novack, & Abraham, 2003; Isenberg, 2010; Mason & Brown, 2014).

Richard Florida (2008) points out that the individual human contribution to economic activity, the elements of talent, innovation and creativity, tend to be concentrated in specific geographic locations. These clusters of “talented and productive people” occur when a particular community is more attractive, both physically and because it has the bundle of goods and services that are “compatible” with residents’ preferences (p. 11). These preferences may include the presence of tangible attributes such as physical and economic safety and security, and access to basic services, as well as more intangible elements such as trust in elected leadership, level of tolerance for diverse demographic groups, and the overall “aesthetics” of a community – the community’s “physical beauty, amenities, and cultural offerings” (p. 163).

One definition of a “entrepreneurial ecosystem” that identifies three main levels of analysis – the community, the organizational or institutional, and the individual – is as follows:

*[An entrepreneurial ecosystem is] an interactive community within a geographic region, composed of varied and interdependent actors*
(e.g. entrepreneurs, institutions and organizations) and factors (e.g. markets, regulatory framework, support setting, entrepreneurial culture), which evolves over time and whose **actors and factors coexist and interact** to promote new venture creation (Vogel, 2013, emphasis added).

However, it’s important to acknowledge that this, by definition, is a system with highly integrated components, and its activities are also highly context-dependent (Auerswald, 2014). Identifying the elements and harnessing the energy of such an ecosystem requires a clear understanding of regionally specific, and intimately local conditions, and an awareness that it will take time, perhaps longer than local politicians can stay in office, and may not automatically lead to the kind of high-growth job creation that state and federal programs expect (Fritsch & Storey, 2014). In addition, the lure of high-growth enterprises may distract policy-makers from paying attention to the needs of those peripheral stakeholders such as small service providers, whose voices may be lost when infrastructure and regulatory matters are discussed.

This suggests the following:

**P1: Policy-makers who demonstrate the ability to gather data regarding the needs of all constituents in the local economy, including the small service provider, will create an infrastructure and regulatory environment more attractive to high growth enterprises.**

**The Ecology of Populations, Communities, and Organizations**

An obvious framework suggested by the discussion of an entrepreneurial ecosystem is the literature on population or organizational ecology (Hannan & Freeman, 1977, 1989). Specifically, this literature discusses how these various entities develop and change over time based on how the “ecosystem” was born, how it grew, how it transformed over time, and whether or not it eventually declined and died. The key elements of this theory revolve around the interactions that occur within the boundaries of the system as defined. Communities such as California’s Silicon Valley are examples of entrepreneurial vitality most likely because they exhibit demographic diversity, both in the type and variability of organizational forms and the extent to which firms enter and exit the ecosystem (Carroll & Hannan, 2000). Acknowledgement of the
importance of this demographic diversity can help policy-makers appreciate how the ecosystem functions. In fact, assessing the interaction of diverse stakeholders at the community level may help insure policy decisions are in alignment with relevant stakeholder interests, therefore improving the long-term prospects for economic growth (Carroll & Hannan, 2000, p. xxiv). One way of assessing this interaction is to provide a mechanism for capturing and sharing stories about how these entities work and live with each other.

In addition, the concept of resource partitioning, which portrays organizations as occupying niche positions with a given ecosystem as either specialists or generalists, has implications for the study of entrepreneurship, specifically how entrepreneurial entities in an ecosystem make strategic choices to enter or exit businesses, whether to grow and develop or stay small and still survive (Aldrich & Martinez, 2001). Part of the research agenda here might include identification of both output and outcome variables – empirical counts of firm entry and exit, with related financial and other economic measures PLUS qualitative accounts of the experiences, and stories, of all stakeholders in the ecosystem, in their own words, in order to create a comprehensive narrative account of what happened. This leads to the following:

**P2:** For a given ecosystem or community, there will be a relationship between positively trending financial and economic data on all entities, and the presence of a mechanism for recording and sharing stories about how the process and context of all elements in a given community has lead to long-term economic growth.

**Resource Components: Dynamic Capabilities and Alliances**

Any enterprise needs access to appropriate assets, and entrepreneurial ventures, by their very nature, may need access to partners or complementary technologies, markets or industries. In order to be innovative, individuals and enterprises need the ability to identify opportunities and exercise networking skills in knowledge acquisition in order to invest in sometimes specialized intellectual assets. These assets can then provide dynamic capabilities that can lead, in turn, to competitive advantage (Teece, 2007). These capabilities are most needed when the environment is uncertain or when resources are scarce, and it’s also possible that the entrepreneurial entity does not have internal access, resources, or ability to develop or deploy those capabilities in-house. Therefore,
especially high-growth ventures that are poised to rapidly scale may need to locate local partners who can provide these needed capabilities on an out-source basis.

However, research has shown that entrepreneurial firms may be compromised if they choose an **alliance partner** from a larger firm (Alvarez & Barney, 2001). The capabilities developed by the larger corporate entity may be embedded in such a way as to make them inaccessible to outsiders, while the fairly new innovations displayed by the entrepreneurial entity may be much easier for the corporate partner to learn about and therefore copy. This is a dilemma, because the required specific knowledge or capability may be time-consuming and expensive to acquire, leaving the small firm with no choice but to trust the larger partner. An alternative might be for the entrepreneurial firm to develop relationships with multiple small niche providers who possess the specialized knowledge needed for rapid growth and development.

**P3: Entrepreneurial firms with aspirations of high-growth in dynamic environments will see more growth if they cultivate reciprocally beneficial relationships with small businesses who have chosen to remain small and have developed expertise in complementary niche businesses or industries.**

**Resource Constraints: Types and Sources of Capital.**

The discussion so far appears to point to one thing among others: the development of a healthy entrepreneurial ecosystem needs resources, specifically forms of **capital**. When researching nascent entrepreneurs, those who initiate new venture startups, it’s been demonstrated that certain forms of capital resources are more important than others for successful entry into new markets (Kim, Aldrich, & Keister, 2006).

Capital is not just financial in nature – but it is a form of wealth, and is capable of being employed in the production of more wealth.³ In addition to financial capital, the financial assets such as cash and physical entities such as the factory, machinery and equipment used in production, business enterprises are primarily concerned with intellectual capital, which include nonphysical assets such as processes, patents, and trademarks – intellectual property – and the accumulated knowledge regarding organizational process and systems that enable work to be done.⁴
Two other forms of capital critical to business success include human capital, the skills, know-how, and expertise of those individuals who choose to help the business solve its problems; and relational or social capital, the relationships or connections that develop between individuals and other entities based on trust and opportunity for mutual benefit. Both of these are transitive as well as intangible, but can be measured by asking people what and who they know; the depth of social capital can be measured by tracking the level of cohesion, density and spread of relationships, for good or ill gains, in a given community. Both these forms of capital reside not only in the organization but also in the community at large, and they are considered critical assets to entrepreneurial enterprise.

At the individual level, access to human capital, specifically education and experience, gained either through the formal support resources of universities or educational offerings by community providers such as the local Small Business Development Center can become critical to success. Likewise, access to mentoring provided by community entities such as SCORE, or experience gained via incubators or accelerators set up by local corporate entities or successful entrepreneurs who want to give back all become predictive of entrepreneurial persistence.

As a possible variant of social capital, Kim et al. (2006) have described cultural capital as a valuable resource for future entrepreneurs. Culture, in this sense, refers to the role modeling that occurs as individuals grow up in an environment where entrepreneurial behaviors and values are shared and demonstrated, as in family businesses. Although it might make intuitive sense that exposure to this culture of entrepreneurial activity might predispose individuals to pursue this activity later on, data does not support this. On the contrary, it’s been proposed that as individuals are exposed to the hardships and economic uncertainties of the family business they become confirmed in their desire not to replicate their parents’ struggles (Kim et al., 2006). This finding might lend more weight to the separation of small and family businesses from being considered as major drivers of regional economic growth (Bachenheimer, 2015).

**P4: When delivering educational or mentoring resources to diverse constituents, those service providers who pay close attention to the role models they use, and make sure family stories stress the positive benefits**
of legacy businesses, will have better success developing economically healthy small and family businesses.

Resource Constraints: The Resource-Based View

The resource-based view of competition has been applied to entrepreneurial activity. Components of internal resources that can lead to competitive advantage include a bundle of resources that accrue to a firm over time. These include path dependence, or the trajectory taken by the firm’s founders as they developed the business. This path can either make it hard for others to imitate, or can constrain the firm by restricting future choices. In addition, as the firm grows, it develops increasing embedded and socially complex knowledge about how to activate those resources. This also adds to the firm’s competitive advantage by being difficult to imitate, but in turn requires the firm to hold onto those individuals who know how to deploy needed capabilities (Alvarez & Busenitz, 2001).

Addressing issues surrounding regional economic growth and competitive advantage, Lata Chatterjee and T.R. Lakshamanan (2009) have proposed a model of economic evolution that includes the rise of an entity they call the entrepreneurial city. This entrepreneurial city exhibits traits associated with individual entrepreneurship: the process of opportunity discovery, the willingness to take risks, the ability to identify innovative solutions involving both products and processes that can help create a dynamic competitive advantage in its region, supporting “sustainable endogenous urban development” (p. 109). The sustainability of this urban development is partially dependent on the presence of the economic entrepreneurs mentioned above: those who can create value through innovative products or services that capture the interest of significant and economically viable markets.

As stated, at both the regional and local level, multiple forms of capital are necessary in order for productive economic activity to occur. According to Chatterjee and Lakshamanan, in order to create a favorable entrepreneurial environment, the city or urban region needs to have at least three things: social entrepreneurs, supportive political and corporate entities, and educated, skilled workers. The region needs urban social entrepreneurs who are well connected to the social networks that can provide critical information about social issues, avenues for exchange and influence, and access to resources that can make things happen. Therefore these social entrepreneurs need to possess social capital. In addition, the focus of entrepreneurial activity for urban revitalization needs to
include both political entities who have influence over needed infrastructure development, and larger economic entities such as corporations and other institutions that contribute *financial capital* to the area. As the environment starts to change, as uncertainty and risk associated with the cost of doing business is reduced, the area needs to attract individuals with diverse skills and interests, therefore increasing the community’s *human capital*. All three forms of capital are necessary in order to provide the assets necessary for development and growth, and these assets can accrue to individual organizations through partnership and employment processes.

*P5: Those entrepreneurial firms who network and partner with small businesses who either employ individuals with specialized knowledge, or who can provide access to skilled labor on a temporary basis, will outperform those who do not.*

**EXAMPLES AND ANALOGIES**

“...the success of new ventures is uncertain and depends on many factors. To succeed, entrepreneurial ventures need funding, but also, high-quality entrepreneurial teams, strong business services, the right kind of partners, skilled employees, receptive customers – and a lot of luck.” (Autio, 2014)

**Regional Examples of Integrated Local Ecosystems**

Examples of cities or urban areas where this activation of multiple factors and resources across sectors has been successful include Chicago, New York City, Boston, and San Francisco, among others. Regarding New York City, former mayor Michael Bloomberg pursued multiple innovations in the greater city’s larger infrastructure initiatives, from the creation of bike paths to renovation of sewer plants and encouraging private investment in public projects, housing and micro-community development (NYC, 2012). One specific example of regional development is the Williamsburg section of Brooklyn, NY. In 1988, the Williamsburg neighborhood of Brooklyn was “a post-industrial town rundown from the shrink of traditional manufacturing”. Seedy and unsafe, it didn't appear to be an ideal location for starting a business, but Stephen Hindy decided to start a craft beer brewery there, partly because he believed Brooklyn “represented a mythical place in America – a gritty urban brand that would be
good for sales”. This entrepreneurial venture was successful. Brooklyn Brewery was recognized in 2012 as one of the fastest-growing inner-city businesses in the U.S., and Williamsburg is trendy and thriving, with economic growth attributed largely to a private sector that employs local residents (hellobrooklyn, 2012).

Detroit is another city where local inhabitants have taken the initiative, sometimes without regard to public policy or rules, to reinvent the community in a way that benefits everyone. Artists and entrepreneurs have appropriated abandoned real estate, in turn inspiring policy makers to create opportunities for legally acquiring these vacant properties and repurposing them for productive use. Stories of grass-root success, even from those in less-privileged positions, here have encouraged others to have hope that innovative solutions can connect ALL residents to opportunities, thereby revitalizing the entire ecosystem (Sherry, 2012; Simmons, 2014).

The activities undertaken in Brooklyn and Detroit illustrate the power of harnessing the “assets, capacities and abilities” of the existing community residents, a model originally promoted in 1993 as an alternative path to development, where “even the poorest neighborhood is a place where individuals and organizations represent resources upon which to rebuild” (Kretzmann & McKnight, 1993). Particularly regarding artistic expression, community-based practitioners can use creativity to see the world through new eyes, uncovering previously “unheard stories” and “advancing social-justice and social-change” agendas in ways that benefit multiple stakeholders (Borrup, 2009a). From these efforts, why wouldn’t entrepreneurially-minded individuals, as sources of both human and social capital, be inspired to engage in economic activity?

Quality-Of-Life Elements as Part of the Ecosystem

There is an additional asset that has been implied to be critical for the development of entrepreneurial ecosystems: the presence of intangible yet valuable resources that are good for the soul. As an example, in a 2011 article about how arts added value to one Wisconsin community, Robin Driessen Bruecker said: “words like “heart,” “lifeblood” and “soul” often have been used when describing various aspects of communities. Perhaps one could say that a community’s residents form the heart, its businesses generate the lifeblood that sustains it, and its local arts are the soul.” (Bruecker, 2011).

This sentiment echoes the research that found a correlation between place and happiness such that cities with high rankings on the “happiness index”, like Denver and Austin, also encourage residents to engage in creative activity that
results in higher rates of innovation and greater economic prosperity. “Symbolic amenities” such as parks and open spaces, and cultural offerings can activate this creative energy, which, in turn, can attract others with that energy, in a positively regenerating cycle (Florida, 2008, p. 159).

Increasingly, a region’s arts and cultural resources are being recognized as economic assets. Certainly, creative industries such as arts and antiques markets, movie and recording studios, fashion, graphic arts, and cultural tourism all can contribute directly to jobs and tax generation (NGA, 2009). But public art, art for art's sake, can also become a “significant catalyst for urban revival”, as witnessed by cities small and large around the world (Moeller & Kratz, 2013). As an example, Medellín, Colombia, a city long plagued by crushing poverty and rampant violent crime, has been reinvigorated by a series of “library parks” notable for their cutting-edge design and their great popularity with the public, and the Guggenheim Bilbao, designed by Frank Gehry, has been credited with the revival of a small, rather run-down industrial city in Spain (publicartsblog, 2013).

Public art can add cultural value, meaning and uniqueness to communities, creating places where people want to visit and live (PANC, 2010), and the arts can no longer be considered an isolated sector of the economy, but instead can be conceived as an integral part of a community’s economic development (Rushton, 2013). For example, using concepts from Rushton's work, in Danbury, Connecticut downtown storefronts are being used for art installations as a way of giving residents and visitors a reason to walk around and create more vibrancy (Perrefort, 2014).

Specifically regarding the quality-of-life component, one has only to walk down the main street of a small-to-medium sized town and it’s possible to gauge the “health” of the businesses located there. Small businesses that overflow onto sidewalks, artful landscaping and colorful signage, diverse ethnicities, local pedestrians, either sauntering or purposeful, who make eye contact and smile, all these are indicators of a healthy ecosystem. If you were thinking of starting a business, wouldn’t you want to be associated with this type of environment?

There’s also increasing awareness that, as Feld pointed out, in order to attract entrepreneurs or inspire other types of innovative products or services, a critical mass of a certain kind of creativity is needed: people are attracted to places that have “character” (2012). As one state Department of Economic and
Community Development put it in their 2014 strategic plan, each town or village has its own uniqueness based in its history:

... shaped by the numerous ethnic nationalities who settled there, with unique architecture and cultural venues, one-of-a-kind shops and restaurants, and exceptional characters, living and dead, who have left their unique marks, etched into buildings and onto the landscape. This depth of local character is subtle. Many of our residents are not conscious of it, but it is a significant source of our current and future economic advantage, because the mobile young talent who will fuel the creation of the next economy value authentic, intimate places that offer opportunities for inspiration, connection and personal impact (CTDECD, 2014).

This kind of focus on local character and the artistic expression of local, perhaps ethnic, cultural talent might have a downside. Sometimes, those who are attracted are migrants from developing countries who initially inhabit low-wage, low-skill jobs, jobs which prevent them from participating in the upward economic trajectory that other locally entrenched and more economically secure members of the community have fostered (Scott, 2007).

In fact, as entrepreneurial development occurs, sometimes the gentrification process raises the rents such that these low-wage workers can no longer afford to live in the areas where their services are most needed. Paradoxically, this can raise a financial burden for all as entrepreneurs have to accommodate transportation issues, potential absenteeism, and lower productivity from the people who clean offices, answer phones, drive busses, park cars, and generally perform those necessary low-skill duties that keep an infrastructure operating. However, as noted previously, local lower-skilled residents do not have to be displaced. Both Brooklyn and Detroit have been successful in incorporating long-term local inhabitants in the renewal effort. In fact, in numerous locations around the world, a “creative economy” has emerged where community-based arts practitioners share ideas about local practice and policies that improves economic conditions for all (Borrup, 2009b).

This leads to an additional suggestion:
P6: When communities encourage the development of not-for-profit entities who sponsor and promote arts, leisure or sport activities, and are willing to become stewards of open spaces and historical artifacts that maintain the legacy of the ecosystem, this will improve economic conditions for all.

Analogy: An Economic Garden.

An argument has been made that healthy entrepreneurial ecosystems require diverse forms of capital, a supportive infrastructure and friendly government, a diverse community willing to provide resources and encouragement to all inhabitants (Anderson et al., 2006) and also access to unique cultural and aesthetic images and artifacts that can inspire creativity and, long-term, can add both economic and symbolic value and vitality to a community (Anderson, 2000). In interesting ways, a healthy entrepreneurial ecosystem is like a permaculture garden: one that is designed to be sustainable, where resources flow into the system and are transformed into useful output that is then reintroduced and re-integrated, increasing the entity’s value over time (Roland & Landua, 2011).

In a permaculture garden, the objective is a sustainable system that meets all the needs of its inhabitants. Creating one requires research into which plants are native or well-adapted to the local area, ones that not only offer practical benefits, but that also provide “aesthetic satisfaction”. In addition, gardeners are encouraged to work with the existing materials and resources the site provides – the soil, sunlight, access to water – and group plantings in ways that enhance their natural assets and disease prevention mechanisms. In this way, the garden will provide built-in self-corrections that adjust to changing conditions and thrive in spite of environmental disruptions. It’s no accident this model has been adapted for use in entrepreneurial ecosystems.

Using concepts from systems dynamics, specifically the idea of stocks and flows and how these models can help the public policy process (Ghaffarzadegan, Lyneis, & Richardson, 2011), the lessons from permaculture activity can also inspire new thinking about the wider issues of “fair and equitable distribution of all forms of capital”, promoting reinvestment in resources that can sustain the larger ecosystem, i.e. our planet, for generations to come (Roland & Landua, 2011).

This gardening analogy is not new. The term “economic gardening” was coined by community leaders in Littleton, Colorado in 1987 to describe the idea
that economies can be grown internally by nurturing second stage (10 to 99 employees) growth companies that are already present in the community rather than trying to recruit new businesses from outside (Gibbons, 2010). This approach is a long-term strategy, but can be very successful as long as it starts with fertile ground. Of interest to those who want to focus solely on high-growth, technology-based startups, the projects chosen for development in Littleton included a water resource consulting firm, a coupon magazine franchise operator, a high-end grocery store and deli, and an art instructor (Anderson et al., 2006).

It may be a mistake to overlook the support provided by peripheral stakeholders such as non-scalable small and family businesses, who not only allow high-growth and high-stakes entrepreneurial ventures to focus on what they do best, but also are probably both customers as well as suppliers to these startup businesses. As such, the local delis, coffee shops, dry cleaners, food trucks, handy-men/women, baby sitters, dog walkers all play an important role in maintaining the health of the overall ecosystem. Their needs should not be ignored. They should be included in the conversation.

RECOMMENDATIONS, CONCLUSIONS AND IMPLICATIONS

“...to design effective policy for entrepreneurial ecosystems, you need to complement ‘hard’, fine-grained data with participative approaches that engage the ecosystem stakeholders. Only the ecosystem stakeholders themselves can provide ‘soft’ insights into the inner workings of the ecosystem. Because no individual stakeholder has a complete insight, you need to engage with many different stakeholders who each have their own perspectives to contribute.” (Autio, 2014)

Regarding recommendations for existing high-growth and scalable entrepreneurial firms, community members, and the role of policy makers, there have been some new developments that might encourage activity to support opportunities for all stakeholders. Specifically, the adoption by many states of the “benefit corporation” legal designation, and the “B-Corp” mechanism offered by the non-profit B Lab to regularly certify companies who make a pledge to support a specific social mission may provide another avenue for innovative economic development. Those companies who decide to take this route are attracting and retaining talented employees who also believe in developing a social conscience (Surowiecki, 2014). The experience working for such a
company is likely to inspire these young business people to try it for themselves, as social entrepreneurs, now pursuing social goals in a for-profit format.

In addition, in many cases regional participants who want to make a difference are hindered in their progress because of a lack of venues for useful discussion that address truly LOCAL issues. One serial entrepreneur trying to address social needs has commented that there is too much focus on “activity” trying to reinvent what’s been done in other places and not enough emphasis on what needs to be done to create local solutions, especially when policy makers appear to compete with each other by offering duplicative programs that have no measurable objectives (Antonich, 2015). Others have also commented on the benefit of creating a map of the local ecosystem that informs, especially, nascent entrepreneurs of appropriate resources – who the participants are, what they provide, and how they’re connected (Antonich, 2015; Auerswald, 2014). This would benefit all by graphically depicting who works with who, with what degree of collaboration, and/or what degree of redundancy.

Regarding the role of the college or university, there are differences of opinion here. Some have promoted institutions of higher education, especially those with scientific, engineering or medical patent-producing activity, as key participants in economic growth. The Triple Helix model encouraging collaboration between universities, businesses, and policy makers in the production, transfer and application of knowledge is one such example that’s not without controversy (Ranga & Etzkowski, 2013): there’s a possible danger that involving these perceived elites as instigators of regional startup activity may further push out the local voices, exacerbating the social culture clash, and leaving peripheral stakeholders such as the non-scalable small business owner or local laborer even further behind (Ward, 2015). Perhaps the position of the university should be to take an additional ancillary role, encouraging collaboration and sharing of knowledge by hosting meetups or facilitating workshops where local mentors and leaders from the entrepreneurial community can come and help “till the garden” (Feld & Kaplan, 2012)?

**IMPLICATIONS**

Therefore this thesis has been proposed: in order to have a balanced and thriving economic ecosystem, attention must be paid to identifying resources at the local and regional government level, at the community level where the natural amenities and cultural components play a role, at the organizational level where both large businesses and educational institutions provide access to
diverse forms of capital, including human talent, and at the individual level where diverse personal characteristics can enrich a support network that encourages and mentors nascent entrepreneurial activity (Vogel, 2013). However, attention must be paid to the ecological balance. A healthy system is not only self-organizing, but can be self-correcting, resilient, and sustainable (Holling, 2001) as long as there are mechanisms to identify threats and develop appropriate skills among all stakeholders that encourage them to cope with change. Unless all elements are in tune with the existing ecosystem, working with and reinforcing one another (Auerswald, 2014), the environment won't encourage those who want to stay within the community to innovate, to create new ventures, and/or grow existing ones. The garden won’t flourish without consideration of the interaction and dependencies of all elements involved.

This paper is one attempt to engage stakeholders in a conversation about these issues. As one researcher pointed out, one goal might be to identify the system’s capacity to “create, test, and maintain adaptive capability”, bearing in mind the need to “build and maintain ecological resilience as well as the social flexibility needed to cope, innovate, and adapt” (Holling, 2001). Policy makers, small town mayors, state economic development agencies, local business leaders, previously successful entrepreneurs, local and regional educational institutions, not-for-profit service and religious organizations and all the various resource providers who depend on entrepreneurial activity should be concerned about the degree to which they can identify and nurture a fertile ground for this kind of development and growth – one which involves all stakeholders. Identifying niche players who may have chosen to stay small, mapping the relationships among diverse elements of the ecosystem, sharing practices, networking at the local level, communicating with all elements of the system, is one way to start.

ENDNOTES

1 Definitions from dictionary.com

4 This is sometimes referred to as structural capital, and is traditionally included along with human and relational capital as part of intellectual capital.

5 A sustainable competitive environment implies that there are unique and valuable bundles of resources that combine to create a competitive advantage; i.e. the resource-based view (Barney, 1991).

6 From 2014 comes this slide show of major cities identified as “most innovative” at “creatively solving urban issues”. In addition to those named above, the list includes Cleveland, Portland, Philadelphia, Minneapolis-St. Paul, Washington DC and Detroit. See http://money.cnn.com/gallery/technology/2014/10/07/most-innovative-cities/jump.html

7 See more about the permaculture garden movement at http://www.theecologist.org/green_green_living/gardening/451581/a_beginners_guide_to_permaculture_gardening.html

8 From http://www.organicgardening.com/learn-and-grow/introduction-permaculture?page=0,1

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UNCOVERING “THE DIP”: WELL-BEING IN ENTREPRENEURSHIP STAGES

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ABSTRACT

In this study I compared early-stage entrepreneurs with late-stage entrepreneurs or business owners. I make a case for the need to differentiate entrepreneurship stages in order to gain insights on life situations associated with different entrepreneurship phases. Three hypotheses were developed and tested using data from 2020 participants, 18% of whom report starting or owning a business. The study findings demonstrate that early-stage entrepreneurs have low psychological and physiological well-being in comparison to already established business owners. The study also shows that despite negative effects associated with early-stage entrepreneurship, entrepreneurial activity has some well-being benefits in comparison to non-entrepreneurial type of work.

Keywords: Entrepreneurship stages, well-being

INTRODUCTION

“Persistent people are able to visualize the idea of light at the end of the tunnel when others can’t see it. At the same time, the smartest people are realistic about not imagining light when there isn’t any.” (Godin, 2007: p. 55)

Entrepreneurs are often defined as individuals who own and manage their own businesses (e.g., Gorgievski & Stephan, 2014). Self-employment is commonly used as an indicator of entrepreneurship (e.g., Gorgievski, Bakker, & Schaufeli, 2010). Notably, entrepreneurship as well as self-employment refer to rather broad conceptual phenomena. These concepts may, therefore, benefit from their decomposition into phases or components, each of which is easier to articulate empirically. We may point, for instance, to early-stage entrepreneurial...
activity, namely starting a new business, as one phase of entrepreneurship, and to late-stage entrepreneurship as another distinct phase (see Global Entrepreneurship Monitor project (2014) for the use of such separate category).

This subdivision of entrepreneurship has notable implications. First, it implies that entrepreneurs may be unemployed, retired, part-time or full-time workers, and are not limited to only a self-employed status. A person may be employed and at the same time pursue or operate an entrepreneurial venture. In this case, employment statuses comprise another contextual factor for consideration, similar to gender, race, marital status, education, age, financial situation, etc. Nonetheless, although good business ideas (e.g. opportunity identification) are an important aspect of entrepreneurship, merely having an idea in mind does not seem to qualify an individual for entrepreneurship classification, at least according to everyday usage of the term in modern societies. Godin illustrates the point:

“Do you know an entrepreneur-wannabe who is on his sixth or twelfth new project? He jumps from one to another, and every time he hits an obstacle, he switches to a new, easier, better opportunity. And while he’s a seeker, he’s never going to get anywhere.” (2006: p. 45)

This basic understanding of entrepreneurship suggests that there are necessarily fewer entrepreneurs who are fully employed than those who are unemployed, partially employed, or retired. In this work, I propose that referring to phases of entrepreneurship can add to the conceptual clarity of the construct. In order to promote this proposition, it is first necessary to demonstrate that entrepreneurial stages do distinct is a meaningful manner. Possibly the most obvious distinction would be between the starting/creation and owning/performance phases of entrepreneurship. The distinction between business creation and business performance is used by Frese and Gielnik (2014), who show, for instance, that an individual’s self-efficacy, autonomy, and locus of control have higher impacts on business creation, whereas motivation for achievement and stress tolerance have stronger effects on business performance.

The Dip (2007) by Seth Godin describes the adversity and strain before individuals achieve economic security or profitability in their new businesses. The significance and relevance of Godin’s conceptions to entrepreneurship has already been described in the press (e.g. Entrepreneur Magazine, 2007). However, despite the high profile of Godin’s work among business professionals
and non-academic publications world-wide, to date it has not received any attention by organizational scholars. Godin asserts that correctly assessing a dip enables the individual to reach his or her goal; incorrect assessment leads to giving up prematurely. "The essential thing to know about the Dip is that it’s there. Knowing that you’re facing a Dip is the first step in getting through it.” (Godin, 2007: p. 30) Additionally, Godin argues that resilience for the early stages of a project can be achieved by framing the situation within a broader context of meaning and purpose (also see Shmotkin, 2005). Perceived project importance and affective commitment to the project were shown to be negatively associated with the experience of negative emotions (Shepherd, Patzelt, & Wolfe, 2011). Godin’s description of difficulties associated with the dip, as well as the reward that follows, fits well the multi-phase perspective on entrepreneurship, where certain psychological and physiological effects correlate with different stages of entrepreneurship. Figure 1 provides the conceptual framework for this study.

**Figure 1. Implementation of Godin’s Concept of The Dip to Describe Entrepreneurship Phases**

![Diagram of entrepreneurial stages](image)

In order to demonstrate that entrepreneurial stages distinct is a meaningful way, it may be useful to refer to entrepreneurs’ well-being in the different entrepreneurial stages. On one hand, entrepreneurship is associated with the experience of stress and negative emotions (e.g., Patzelt & Shepherd). Psychological distress is shown to be prevalent among entrepreneurs (Cocker, Martin, Scott, Venn, & Sanderson, 2013). And, although positive affect was shown to moderate the negative effects of stress on entrepreneurs (Cardon &
Patel, 2013), it was found that positive affect can actually be detrimental to business success (Baron, Tang, & Hmieleski, 2011). Also, entrepreneurship can result in increased stress due to the difficulty of investing the necessary time and energy in one’s marriage. Marriage may be an important contributing factor in business success (Powell & Eddleston, 2013). Findings suggest that stress and negative emotions may be necessary ingredients for peak performance (Schindehutte, Morris, & Allen, 2006) and business success (Hmieleski & Baron, 2009) in modern capitalist markets.

On the other hand, entrepreneurs report high job satisfaction as well as satisfaction with life as a whole (Binder & Coad, 2013; Stephan & Roesler, 2010). Despite working longer hours, entrepreneurs show increased work engagement and do not report working more compulsively, suggesting an overall positive attitude toward working (Gorgievski, Bakker, & Schaufeli, 2010). To reconcile these seemingly contradictory positive and negative psychological outcomes of entrepreneurship, it may be useful to refer to the entrepreneurial stages proposed earlier. Specifically, although demanding market requirements can result in adverse impacts on entrepreneurs’ psychological well-being, these influences may be more inescapable for early-stage entrepreneurial activity than for entrepreneurs in the ownership/profitability stage.

Similarly, entrepreneurial stages may be correlated with different physiological outcomes. It was shown that stressed entrepreneurs are prone to health risks over time (Cardon & Patel, 2013), and although entrepreneurs were shown to have fewer physician visits and fewer sick days (Lewin-Epstein & Yuchtman-Yaar, 1991; Stephan & Roesler, 2010), these findings may rather indicate that entrepreneurs are highly dedicated to their work and that it does not permit them to take sick days, in contrast to the majority of the workforce. Healthcare neglect may be detrimental to the mental as well as physical health of the entrepreneur.

In summary, I propose two hypotheses regarding the effect of early and late stages of entrepreneurship on psychological and physiological well-being. Additionally, given the central role of the financial situation in any entrepreneurial activity, financial satisfaction is used to test for mediation effect.

**H1** Early-stage entrepreneurial activity will be associated with lower psychological well-being than will later entrepreneurial phases.
H2  Early-stage entrepreneurial activity will be associated with lower physiological well-being than will later entrepreneurial phases.

H3  Financial satisfaction will mediate the association between the entrepreneurship stage and psychological as well as physiological well-being.

METHODS

Sample and Database

For this study I used the General Social Survey (GSS) dataset, which comprises studies on American society since 1972. I used the 2008 survey data that includes the variables of interest. I divided the sample into four categories or stages of entrepreneurship, using the participants’ answers to two questions: (1) “Are you, alone or with others, currently the owner of a business you help manage, including self-employment or selling any goods or services to others?,” and (2) “Are you, alone or with others, currently trying to start a new business, including any self-employment, or selling any goods or services to others?.” In total, 2020 respondents answered the two questions, and were accordingly assigned to one of the following four categories: individuals who report both owning a business and starting a new business; individuals who report only starting a new business (and not owning a business); participants reporting only owning a business (and not starting a new one); participants who report neither owning a business nor starting one. Table 1 below describes each of the four groups. In this study, entrepreneurs make up 18.02% of the sample. This percentage is close to another 2008 entrepreneurship estimate (Global Entrepreneurship Monitor project, 2014) of 19.1% (for early-stage and established business ownership combined). This percentage refers to the US, and is higher than the percentage shown in other western societies, suggesting heterogeneity in market capitalism.
### Table 1
Background Characteristics of the Study Groups

<table>
<thead>
<tr>
<th>Study Group</th>
<th>1 (N=96)</th>
<th>2 (N=105)</th>
<th>3 (N=153)</th>
<th>4 (N=1666)</th>
<th>P Value (Anova)</th>
<th>Group comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demographics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Own and start</td>
<td>Only start</td>
<td>Only own</td>
<td>Neither</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male sex (%, n)</td>
<td>59.4% (57)</td>
<td>55.2% (58)</td>
<td>58.2% (89)</td>
<td>43.5% (724)</td>
<td>&lt;.001</td>
<td>4 &lt; 1, 2, 3</td>
</tr>
<tr>
<td>White race (%, n)</td>
<td>75.0% (72)</td>
<td>66.7% (70)</td>
<td>90.2% (138)</td>
<td>76.6% (1276)</td>
<td>&lt;.001</td>
<td>1, 2, 4 &lt; 3</td>
</tr>
<tr>
<td>Age in years (mean, SD)</td>
<td>41.0 (12.6)</td>
<td>41.5 (13.8)</td>
<td>48.5 (13.6)</td>
<td>48.4 (17.9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currently married (%, n)</td>
<td>51.0% (49)</td>
<td>44.8% (47)</td>
<td>64.2% (97)</td>
<td>46.6% (777)</td>
<td>&lt;.001</td>
<td>1, 2, 4 &lt; 3</td>
</tr>
<tr>
<td>Number of children (mean, SD)</td>
<td>1.70 (1.63)</td>
<td>1.65 (1.47)</td>
<td>1.92 (1.67)</td>
<td>1.97 (1.72)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education years (mean, SD)</td>
<td>14.4 (3.1)</td>
<td>13.5 (3.1)</td>
<td>14.5 (3.0)</td>
<td>13.3 (3.1)</td>
<td>&lt;.001</td>
<td>2, 4 &lt; 1, 3</td>
</tr>
<tr>
<td>Religious belief (mean, SD)</td>
<td>2.92 (1.15)</td>
<td>2.89 (1.08)</td>
<td>2.89 (1.09)</td>
<td>2.97 (1.05)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part-time (%, n)</td>
<td>19.8% (19)</td>
<td>11.4% (12)</td>
<td>15.1% (23)</td>
<td>9.4% (157)</td>
<td>&lt;.01</td>
<td>4 &lt; 1, 3</td>
</tr>
<tr>
<td>Financial satisf. (mean, SD)</td>
<td>1.86 (0.75)</td>
<td>1.80 (0.79)</td>
<td>2.20 (0.76)</td>
<td>1.97 (0.77)</td>
<td>&lt;.001</td>
<td>1, 2, 4 &lt; 3</td>
</tr>
<tr>
<td><strong>Psychological well-being</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Happiness (mean, SD)</td>
<td>2.23 (0.66)</td>
<td>2.01 (0.69)</td>
<td>2.31 (0.64)</td>
<td>2.13 (0.66)</td>
<td>&lt;.01</td>
<td>2, 4 &lt; 3</td>
</tr>
<tr>
<td>Exciting life (mean, SD)</td>
<td>2.68 (0.50)</td>
<td>2.51 (0.58)</td>
<td>2.66 (0.50)</td>
<td>2.40 (0.59)</td>
<td>&lt;.001</td>
<td>4 &lt; 1, 3</td>
</tr>
<tr>
<td><strong>Domain-specific well-being</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work satisfaction (mean, SD)</td>
<td>3.49 (0.63)</td>
<td>3.19 (0.89)</td>
<td>3.51 (0.71)</td>
<td>3.33 (0.79)</td>
<td>&lt;.01</td>
<td>2 &lt; 1, 3</td>
</tr>
<tr>
<td>Happy marriage (mean, SD)</td>
<td>2.61 (0.64)</td>
<td>2.55 (0.50)</td>
<td>2.62 (0.55)</td>
<td>2.58 (0.55)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercourse freq. (mean, SD)</td>
<td>1.09 (0.67)</td>
<td>1.09 (0.80)</td>
<td>1.14 (0.68)</td>
<td>0.87 (0.76)</td>
<td>&lt;.001</td>
<td>4 &lt; 1, 2, 3</td>
</tr>
<tr>
<td><strong>Physiological well-being</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subjective health (mean, SD)</td>
<td>3.12 (0.7)</td>
<td>3.00 (0.74)</td>
<td>3.19 (0.73)</td>
<td>2.90 (0.83)</td>
<td>&lt;.01</td>
<td>4 &lt; 1, 3</td>
</tr>
<tr>
<td>Ever tested for HIV (%, n)</td>
<td>55.8% (48)</td>
<td>58.9% (56)</td>
<td>48.2% (68)</td>
<td>37.8% (540)</td>
<td>&lt;.001</td>
<td>4 &lt; 1, 2, 3</td>
</tr>
</tbody>
</table>

**Notes:** Group 1 owns a business & starts a new business; Group 2 only starts a new business; Group 3 only owns a business, and Group 4 neither owns a business nor starts a new business. Valid (non-missing) percentages are presented. P values are for one-way Anova analyses; LSD test was used for group comparison.

The dependent variables used for this study include a broad range of psychological and physiological well-being indices, including general self-reported measures of happiness and excitement in life, as well as more domain-specific measures of work satisfaction and marriage happiness. In addition to self-reported measures, more objective measures were included such as whether...
the person was ever tested for HIV (not including tests that were taken as part of a blood donation) and the frequency of intercourse (“Not at all” to “4+ times per week”). Marriage-related measures were tested for a subset of the original sample (about half the sample) that comprises only married individuals. Financial satisfaction was included in Step 3 of all regression analyses to test for mediation (Hypothesis 3). Background variables were controlled in all regressions. The correlations between the main study variables are provided in Appendix 1. The highest correlation is between general happiness in life and happiness with marriage (r = 0.474, p < 0.001).

Results

Table 1 shows the results of ANOVA analysis for each of the study variables, across three entrepreneurship groups and one non-entrepreneurship group as a comparison. A brief review of the demographics shows that the majority of entrepreneurs are males, those who only own a business are mainly white, and those who report starting a business are on average younger. In regard to the main study variables, business owners (Group 1 and Group 3) overall show higher psychological and physiological well-being than non-entrepreneurs (Group 4). They report a more exciting life and higher work satisfaction, as well as higher subjective health. All groups of entrepreneurs report more frequent intercourse, and they also have higher percentages of HIV tests than the comparison group, especially for those starting a new business (Groups 1 and 2). Lastly, those who only start a business (Group 2) report lower financial satisfaction, general happiness, and work satisfaction than entrepreneurs who report owning a business. The ANOVA analysis findings suggest that Group 3 (those who own a business and do not seek to start a new one) has distinct properties in comparison to the other groups, both in terms of demography and well-being; it was therefore selected as a reference group for the following regression analyses.

The Outcome of the Regressions

Tables 2-4 present the results of multiple ordinal regression analyses, where the study hypotheses were examined. The hypotheses were that early-stage entrepreneurs will report lower psychological and physiological well-being than late-stage entrepreneurs, and that financial satisfaction will act as mediator
for this group difference. Those who own a business and do not seek to start a new one are the reference group in the regressions, and non-entrepreneurs are also included as a comparison group. Table 2 refers to two general indices of subjective well-being, namely happiness and excitement in one’s life. The results demonstrate significantly lower happiness levels for early entrepreneurs as well as for the non-entrepreneurship group (B = -0.615 and -0.352 respectively, p<0.05). The effect is decreased when financial satisfaction is included in Step 3. Also, the non-entrepreneurs report significantly lower excitement from life in comparison to the business ownership group. Although there is a negative effect for early entrepreneurs (B = -0.406), this effect is not significant.

Table 2. Results of Steps 1-3 in Ordinal Regression Analyses Predicting Psychological Well-Being with Background Variables, Entrepreneurship Group, and Financial Satisfaction

<table>
<thead>
<tr>
<th>Predicting Variables</th>
<th>Happiness</th>
<th>Exciting life</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1: Background (B)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-.003</td>
<td>-.006*</td>
</tr>
<tr>
<td>Age square</td>
<td>.000+</td>
<td>.000*</td>
</tr>
<tr>
<td>Gender (Female)</td>
<td>.046</td>
<td>.088</td>
</tr>
<tr>
<td>Race (White)</td>
<td>.379**</td>
<td>.241*</td>
</tr>
<tr>
<td>Married</td>
<td>1.107**</td>
<td>1.018**</td>
</tr>
<tr>
<td>Has children</td>
<td>-.150</td>
<td>-.075</td>
</tr>
<tr>
<td>Education</td>
<td>.075***</td>
<td>.033*</td>
</tr>
<tr>
<td>Employment</td>
<td>.047</td>
<td>-.025</td>
</tr>
<tr>
<td>Religious belief</td>
<td>.172***</td>
<td>.145**</td>
</tr>
<tr>
<td><strong>Step 2: Group effect (B)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group 1 (own &amp; start)</td>
<td>-.047</td>
<td>.129</td>
</tr>
<tr>
<td>Group 2 (only start)</td>
<td>-.615*</td>
<td>-.455+</td>
</tr>
<tr>
<td>Group 3 (neither)</td>
<td>-.352*</td>
<td>-.252</td>
</tr>
<tr>
<td><strong>Step 3: Mediation (B)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial satisfaction</td>
<td>.806***</td>
<td>.434***</td>
</tr>
<tr>
<td>R² (Nagelkerke)</td>
<td>.121***</td>
<td>.205***</td>
</tr>
<tr>
<td>N</td>
<td>1,917</td>
<td>1,276</td>
</tr>
</tbody>
</table>
Notes: Group 1 owns a business & starts a new business; Group 2 only starts a new business; Group 3 only owns a business, and Group 4 neither owns a business nor starts a new business. Valid (non-missing) percentages are presented. P values are for one-way Anova analyses; LSD test was used for group comparison.

Table 3. Results of Steps 1-3 in Ordinal Regression Analyses Predicting Work Satisfaction and Subjective Health with Background Variables, Entrepreneurship Group, and Financial Satisfaction

<table>
<thead>
<tr>
<th>Predicting Variables</th>
<th>Step 1: Background (B)</th>
<th>Step 2: Group effect (B)</th>
<th>Step 3: Mediation (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Work satisfaction</td>
<td>Subjective health</td>
<td></td>
</tr>
<tr>
<td>Dependent Variable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-.016***</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>.015*** .015*** .023*** .023*** .025***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age square</td>
<td>.000</td>
<td>.000</td>
<td>.000**</td>
</tr>
<tr>
<td></td>
<td>.001** .001** .000*</td>
<td>.015***</td>
<td></td>
</tr>
<tr>
<td>Gender (Female)</td>
<td>-.013</td>
<td>.005</td>
<td>.051</td>
</tr>
<tr>
<td></td>
<td>.067</td>
<td>.086</td>
<td>.115</td>
</tr>
<tr>
<td>Race (White)</td>
<td>.117</td>
<td>.092</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>.256+ .228+ .151</td>
<td>.224+ .228+ .151</td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>.065</td>
<td>.055</td>
<td>-.062</td>
</tr>
<tr>
<td></td>
<td>.321** .311** .224+</td>
<td>.310* .224+ .136</td>
<td></td>
</tr>
<tr>
<td>Has children</td>
<td>.237+</td>
<td>.242+</td>
<td>-.180</td>
</tr>
<tr>
<td></td>
<td>.310*</td>
<td>-.179</td>
<td>-.136</td>
</tr>
<tr>
<td>Education</td>
<td>.068***</td>
<td>.064***</td>
<td>.030</td>
</tr>
<tr>
<td></td>
<td>.150*** .147*** .147***</td>
<td>.147*** .147*** .147***</td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>.185</td>
<td>.171</td>
<td>.201</td>
</tr>
<tr>
<td></td>
<td>.662*** .633*** .623***</td>
<td>.633*** .623*** .623***</td>
<td></td>
</tr>
<tr>
<td>Religious belief</td>
<td>.175***</td>
<td>.175***</td>
<td>.151**</td>
</tr>
<tr>
<td></td>
<td>.056</td>
<td>.056</td>
<td>.043</td>
</tr>
<tr>
<td>Financial satisfaction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.729***</td>
<td>.450***</td>
<td></td>
</tr>
<tr>
<td>R² (Nagelkerke)</td>
<td>.052***</td>
<td>.058***</td>
<td>.130***</td>
</tr>
<tr>
<td></td>
<td>.146*** .150*** .176***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>1,470</td>
<td>1,287</td>
<td></td>
</tr>
</tbody>
</table>

Notes: Reported are results of Ordinal regression analysis after a list-wise deletion of missing data; 554-737 participants did not complete specific variables.

+ $p<0.1$. * $p<0.05$. ** $p<0.01$. *** $p<0.001$. 

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Table 4. Results of Steps 1-3 in Ordinal Regression Analyses Predicting Marriage Happiness and Intercourse Frequency among Married Individuals with Background Variables, Entrepreneurship Group, and Financial Satisfaction

**Dependent Variables – Domain Specific**

<table>
<thead>
<tr>
<th>Predicting Variables</th>
<th>Marriage happiness</th>
<th>Intercourse frequency in past 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1: Background (B)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-.005</td>
<td>-.004</td>
</tr>
<tr>
<td>Age square</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>Gender (Female)</td>
<td>-.255+</td>
<td>-.253+</td>
</tr>
<tr>
<td>Race (White)</td>
<td>.410*</td>
<td>.410*</td>
</tr>
<tr>
<td>Married</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Has children</td>
<td>-.652*</td>
<td>-.663**</td>
</tr>
<tr>
<td>Education</td>
<td>.114***</td>
<td>.113***</td>
</tr>
<tr>
<td>Employment</td>
<td>-.154</td>
<td>-.160</td>
</tr>
<tr>
<td>Religious belief</td>
<td>.213**</td>
<td>.210**</td>
</tr>
<tr>
<td><strong>Step 2: Group effect (B)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group 1 (own &amp; start)</td>
<td>.251</td>
<td>.317</td>
</tr>
<tr>
<td>Group 2 (only start)</td>
<td>-.231</td>
<td>-.057</td>
</tr>
<tr>
<td>Group 3 (neither)</td>
<td>-.099</td>
<td>-.055</td>
</tr>
<tr>
<td><strong>Step 3: Mediation (B)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial satisfaction</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>R² (Nagelkerke)</td>
<td>.067***</td>
<td>.068***</td>
</tr>
<tr>
<td>N</td>
<td>929</td>
<td>761</td>
</tr>
</tbody>
</table>

Tables 3 and 4 show the results of domain-specific well-being indices. Table 3 shows that those who start a business have significantly lower satisfaction from work than those who already own a business \((B = -0.658, p < 0.05)\). The effect was decreased, though not eliminated, after controlling for financial satisfaction. Although no significant difference was found for subjective health between entrepreneurship stages, all groups report lower subjective health than those who only own a business. Table 4 refers to the marriage domain and therefore pertains to the subset of individuals who are married. Similarly to the ANOVA analysis results, marriage satisfaction did not
significantly differ between the groups. However, intercourse frequency, which may be an objective parameter of a healthy marriage, shows differences between the groups. All three groups have lower intercourse frequency than those who only own a business (B ranges -0.455 to -0.657); however, the effect is significant for those who both start and own a business but not for those who only start a business. Financial satisfaction is significantly associated with intercourse frequency (B = 0.268, p<0.05), and also mediates the entrepreneurship group effect.

Table 5. Results of Steps 1-3 in Logistic Regression Analyses Predicting HIV Tests in terms of Background Variables, Entrepreneurship Group, and Financial Satisfaction (Odd Ratios)

<table>
<thead>
<tr>
<th>Predicting Variables</th>
<th>Step 1: Background</th>
<th>Step 2: Group effect</th>
<th>Step 3: Mediation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exp (B) [95% CI]</td>
<td></td>
<td>Exp (B) [95% CI]</td>
</tr>
<tr>
<td><strong>Step 1: Background</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>.961*** [.953 .968]</td>
<td>.961*** [.954 .968]</td>
<td>.962*** [.955 .970]</td>
</tr>
<tr>
<td>Gender (Female)</td>
<td>1.062 [.853 1.321]</td>
<td>1.108 [.888 1.382]</td>
<td>1.105 [.866 1.379]</td>
</tr>
<tr>
<td>Race (White)</td>
<td>.728* [.561 .945]</td>
<td>.717* [.551 .933]</td>
<td>.741* [.569 .966]</td>
</tr>
<tr>
<td>Married</td>
<td>.682** [.541 .859]</td>
<td>.656*** [.520 .829]</td>
<td>.685*** [.542 .867]</td>
</tr>
<tr>
<td>Education</td>
<td>1.022 [.985 1.061]</td>
<td>1.016 [.979 1.054]</td>
<td>1.028 [.990 1.068]</td>
</tr>
<tr>
<td>Religious belief</td>
<td>.949 [.858 1.050]</td>
<td>.946 [.855 1.048]</td>
<td>.956 [.863 1.058]</td>
</tr>
<tr>
<td><strong>Step 2: Group effect</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group 1 (own &amp; start)</td>
<td>1.636* [1.008 2.657]</td>
<td>1.578+ [1.971 2.565]</td>
<td></td>
</tr>
<tr>
<td>Group 2 (only start)</td>
<td>1.840* [1.159 2.922]</td>
<td>1.787* [1.123 2.843]</td>
<td></td>
</tr>
<tr>
<td>Group 3 (neither)</td>
<td>1.833** [1.248 2.691]</td>
<td>1.912** [1.299 2.815]</td>
<td></td>
</tr>
<tr>
<td><strong>Step 3: Mediation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial satisfaction</td>
<td></td>
<td>.783** [.677 .906]</td>
<td></td>
</tr>
<tr>
<td>R² (Nagelkerke)</td>
<td>.159***</td>
<td>.172***</td>
<td>.179***</td>
</tr>
<tr>
<td>N</td>
<td>1,662</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Lastly, Table 5 shows that the likelihood of taking an HIV test is higher for those who report starting a business (OR = 1.636 and 1.840 for Groups 1 and
2 respectively, \( p<0.05 \), as well as for non-entrepreneurs (OR = 1.833, \( p<0.01 \)) in comparison to those only owning a business. Financial satisfaction in Step 3 only weakly mediates these group differences.

**DISCUSSION**

The main purpose of this study was to study entrepreneurship, not as a single category, but rather as a concept that describes a multi-stage process of starting a business. The viewpoint proposed is consistent with Seth Godin’s concept of “the dip” discussed earlier (see Figure 1). Specifically, early-stage entrepreneurship is understood to be associated with various uncertainties, stressful and demanding work conditions, and large financial risks, whereas late-stage entrepreneurship induces financial security as well as additional benefits from self-employment such as autonomy, work flexibility, social status and recognition, and a purposeful career in an area of interest. These associations suggest substantial differences in well-being between the early and late stages of entrepreneurship. Diverse well-being indices were used to test the significance of conceptually differentiating among entrepreneurship stages.

The study results overall support the study hypotheses, namely, that early-stage entrepreneurs have lower well-being than late-stage entrepreneurs. Also, in all regressions financial satisfaction was a significant mediator. In part, financial satisfaction is responsible for the differences in well-being between the entrepreneurship groups, thus suggesting the negative effects on individuals’ well-being of large financial investments and the insecurities involved in new entrepreneurial ventures in a modern capitalist economy. The study results provide some interesting nuances for discussion.

First, the non-entrepreneurship group I used for reference did not show higher well-being than those who start a business, except for reporting greater financial satisfaction than those only starting a business. This finding challenges Godin’s proposition of a dip, showing that early-stage entrepreneurs do not necessarily experience a worse life situation in comparison to non-entrepreneurs. This finding is not very surprising, considering the interest, adventure, and sense of purpose that are often associated with entrepreneurship activity, in comparison to the dullness that may be associated with many mainstream occupations. These positive aspects of entrepreneurship may counterbalance the stress and financial risks involved in starting a new business. Second, late-stage business owners experience higher well-being, both in general and in specific domains. The
results support the study hypotheses and agree with Godin’s proposition of high rewards in the owning/performance phases of entrepreneurship, where risks are lower and gains are greater.

Hence, entrepreneurs may not necessarily actively seek risks (Macko & Tyszka, 2009), but rather they may find the short- and long-term benefits of entrepreneurship believable, reasonable, and worthwhile. The findings support the view that entrepreneurship has some well-being costs (e.g., Parslow et al., 2004; Rau et al., 2008) and at the same time show that there are unique well-being benefits for entrepreneurs (e.g., Bradley & Roberts, 2004; Stephan, & Roesler, 2010). Opposite effects on entrepreneurs’ well-being were already demonstrated in earlier studies (e.g., Lewin-Epstein & Yuchtman-Yaar, 1991). In this study, I propose a logical explanatory theory for such contradictions by differentiating between entrepreneurship stages. The study results suggest the benefit of a process perspective on entrepreneurship.

**CONCLUSIONS AND IMPLICATIONS**

An important contribution of this study is its proposition of a dynamic approach to entrepreneurship. Seeing entrepreneurship as a multi-stage process provides a clearer and more in-depth appreciation of the phenomenon, explicating the heterogeneity among entrepreneurs as a subject of study. I believe, and the results demonstrate, that referring to entrepreneurs in different entrepreneurial stages may help scholarly understanding of entrepreneurs and their well-being.

This study shows that early-stage entrepreneurs may experience certain difficulties in their path to meaningful and rewarding employment. This information illuminates the potential role that healthcare services and psychologists can play in reducing entrepreneurs’ distress, whether by treatments or through life-style interventions, considering their busy schedules and intense daily experiences. Notably, such interventions may have implications not only for the well-being of individuals, but also for the prosperity of societies that benefit from the entrepreneurs’ contributions (for a review see Van Praag & Versloot, 2007). Likewise, understanding the employment benefits of entrepreneurship in comparison to non-entrepreneurial occupations can increase the chances that early-stage entrepreneurs will push harder and succeed in the demanding environment of modern market capitalism. Emotions experienced are associated with entrepreneurs’ evaluation of new opportunities as well as the
willingness to exploit new opportunities (Foo, Uy, & Baron, 2009; Grichnik, Smeja, & Welpe, 2010).

Prior to discussing opportunities for future research avenues suggested by the propositions and findings in this study, some of the study’s limitations should be noted. First, the study sample is limited by its size as well as locality. Specifically, a larger sample might have provided more significant results as well as opportunities to examine moderation effects. Nevertheless, the scope of the study is large enough to be meaningful, and future studies may look at group-specific interactions. Also, since the study is based in the US in the year 2008, the generalizability of results to other societies and/or different years is not assured. There is certainly a need to expand this research to other western capitalist countries as well as to non-western and non-capitalist societies, and thus learn how different social arrangements and norms affect entrepreneurs’ well-being and their likelihood of making fruitful social contributions.

Additionally, although two objective well-being criteria were used in this study, more such criteria could have provided a more vivid image of the different entrepreneurial stages. There is little question that a limitation of secondary datasets is the researcher’s need to best utilize the study variables already provided. On the other hand, secondary databases provide a rich source for investigation on topics of global interest, and they consist of rather large and representative samples, which offer validity and reliability of the study variables.

Finally, this study attempts to create a bridge between professionals and academics, by giving space in academic journals to widely adopted concepts proposed by highly regarded and experienced professionals. Entrepreneurship is one topic that can remarkably benefit from such bridging.

REFERENCES


ENTREPRENEURIAL INTENTIONS OF ACCOUNTING STUDENTS

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ABSTRACT

The primary focus of this work is the exploration of the constructs, entrepreneurial intention, and entrepreneurial self-efficacy, as this work may inform entrepreneurship educators and career counselors. A secondary aim is the examination of core self-evaluation within the context of entrepreneurial intention. Little prior research has focused on students in specific business disciplines, and in this study we examine the intention of accounting students who are within 18 months of graduation. The concept of entrepreneurial self-efficacy, one’s belief in capacity to start a business, heretofore has been shown to be highly related to entrepreneurial intention. This particular relationship is explored in detail as well as the contrast in various measures of self-efficacy. Also examined are the relationships among entrepreneurial self-efficacy and intention with performance (collegiate GPA), and job dedication (a measure of work performance). Findings tend to demonstrate the concurrent and construct validity of the attitudinal measure, entrepreneurial self-efficacy. In addition, the study adds to the theory base regarding entrepreneurial intention.

Keywords: Entrepreneurial, Intention, University students, Self-efficacy

INTRODUCTION

The growth and development of small businesses is important for many regions or countries as such activity represents the generation of additional commercial activity. In some places, absolute growth in economic activity results from establishment of small businesses. Interest in the creation of small businesses has led to exploration of how and why individuals self-select to start a business. The topic of one’s intention to become an entrepreneur has received considerable attention in the literature of entrepreneurship. The subject is normally referred to as entrepreneurial intention and in recent years several research articles have appeared that address the intention from various points of view to include gender, age, culture, work experience, and others (see, for
example, Cha and Bae, (2010). Nearly all of the relevant research is found in the entrepreneur literature.

While some attention has been given to entrepreneurial intention on the part of high school and college students, little attention has been afforded to studying the intentions of college students in specific disciplines. Studies have included samples of students from programs in commerce or business administration, yet there has been practically no research into the intentions of students enrolled in a specific discipline. The present study aims to study the entrepreneurial intentions of students of accounting to extend what is known about intentions of college students.

Another aim of the present study is to examine one of the research-grounded antecedents of entrepreneurial intention: perceived self-efficacy. Some of the literature aimed at one’s intention to start a business has found moderate to strong relationships between perceived self-efficacy and entrepreneurial intention. We want to examine this particular relationship with a sample of accounting students and we want to broaden the focus on self-efficacy by studying the variables of core self-evaluation, job dedication, and grade-point-average (GPA) in relation to entrepreneurial intention. Core self-evaluation (CSE) as a construct and measure includes self-efficacy, however CSE is a broad and unified concept which has been shown to be strongly and positively related to work performance. Job dedication as an attitudinal measure has been shown to be a useful predictor of success on the job as well as a predictor of contextual, helpful performance on the job. Overall student GPA has been shown to be a reliable predictor of performance on the job.

In sum, the foci of the present study are examination of: (1) the entrepreneurial intentions of a group of accounting students, as well as (2) variables that heretofore have been shown to be positively related to entrepreneurial intention and/or performance on the job. Combining research on intentions with self-perceptions and links to performance correlates should extend the theory-grounding of entrepreneurial intentions. Findings should add to what is known about entrepreneurial intention as well as to add to understanding of antecedent variables. The following sections of this paper present a review of literature relevant to the topics under study, the explanation of research methodology and questions, study results, discussion and conclusions.
BACKGROUND AND REVIEW OF LITERATURE

An entrepreneur is one who starts his or her own business. The individual is normally regarded as being self-employed and the terms, “entrepreneur” and “self-employed” are often used inter-changeably. In the U.S. more than 96 percent of all businesses are small firms with 500 or fewer employees; many with less than 20 employees (Nunn and Ehlen, 2001). Many firms are led by an entrepreneur or sole proprietor. The U.S. Small Business Administration (2015) identifies significant growth in the number of sole proprietorships. Interest in starting a new business is generally high.

Nabi, Holden & Walmsley, (2010) report that in the U.K., as employment in blue-chip firms has declined and continues to decline, more college graduates are being encouraged to start their own business. At the same time, they report, government programs to providing support services (incubators, etc.) have helped to increase interest and growth in entrepreneurship. Interest in entrepreneurship influences college student career exploration. The matter of individual career exploration and development from initial thoughts and perceptions to decisions and actions may follow a circuitous path. For example, two research foci on entrepreneurial career exploration are (1) the student-to-entrepreneur transition by way of career choice, identity as an entrepreneur, and intention; and (2) the wider environmental and social contexts such as entrepreneurial education and support (Nabi, et al., 2010). These domains are widely different.

Several studies report that the transition from entrepreneur intentions of college students to actual business start-up is frequently assumed to be an identifiable process, yet the process is not well-understood and is under-researched (Galloway & Brown, 2002; Henry, Hill & Leitch, 2003). Process suggests steps, parts, phases, sequence, etc. Available research generally identifies parts or elements of a transition from student to entrepreneur; however, specificity regarding steps, phases, and sequence of events finds little agreement.

Education: Formal and Informal

The entrepreneur may or may not have received formal education or training on the specifics of starting a business. At the college level, many programs exist, world-wide, that aim to educate students in the roles, responsibilities, challenges, and skills required of a fledgling entrepreneur. The
programs offered can range from two or three specific courses (usually 3-credits each) to an entire concentration (entrepreneurship) which may consist of an entire year’s worth of college courses. Rae and Woodier (2006) state that there is a lack of comparability of skills taught across entrepreneurial programs and there is limited research on the student-to-entrepreneur transition. Nabi, et al., (2010, p. 394) conclude: “The extent to which education impacts on graduate entrepreneurship or helps graduates become more effective entrepreneurs is unclear because of a lack of common framework for evaluation and measuring educational inputs and outputs.”

As Neck and Greene, (2011, p. 55) point out, entrepreneurship as an activity “… is complex, chaotic, and lacks any notion of linearity.” Education for entrepreneurship tends to generally reflect these characteristics. In a broad sense, education for entrepreneurship involves several features that may or may not dovetail into a coherent plan of action for an individual. These features include career choices, interest in starting one’s own business (entrepreneurial intention), self-assessment in terms of skills, attitudes, business plan, skill attainment (finance, marketing, strategic planning, other), knowledge of supportive resources, and the influence of significant others on our choices and plans. Nabi et al., (2010) concluded that the skills agenda, alone, presents problems for educators. For example, the available research does not demonstrate a conceptual understanding of the process from student to entrepreneur. Pittaway (2005) suggests that the efficacy of entrepreneurship education remains under-researched since most studies focus on attitudinal variables and intent as contrasted with actual behavior.

As Kumara (2012) suggests, the jury is still out on the question of the positive influence of formal entrepreneurship study on actual commencement of a business, as well as on the performance and longevity of the business. Examination of these matters often requires longitudinal study and there is little of this type of work reported in the research literature. A recent study (Bae, Qian, Miao & Fiet, 2014) used a meta-analysis of 73 studies with a total sample size of 37,285 individuals to demonstrate that the relationship between business education and/or entrepreneurship education and post-education entrepreneurial intention was not significant. In general, there is no preponderance of evidence to indicate that particular college courses, career advice counseling, and the like have substantial influence on one’s choice to be an entrepreneur. However, Nabi et al., (2010) state that some students reported that informal advice from tutors
and/or significant others (for example, parents, and partners) did have substantial influence on the choice to pursue entrepreneurship.

Extending the idea of the value of informal education, Rae and Woodier (2006) suggest that examination of research on informal versus formal education may reveal that formal education demonstrates a lack of planning and a lack of building student self-confidence which helps prevent effective vocational decision making. Further, they suggest that informal channels (for example, family, role-models, and partners) are likely to be important influences because becoming an entrepreneur is an emergent process of development in career orientation, self-efficacy, and self-confidence. Family and others can provide substantial moral support.

Attending to accounting students in particular, there is likely a distinct difference in the nature of the typical curriculum for accounting students and the studies or education for entrepreneurial activity. Much accounting education, in the U.S., for example, focuses on specific concepts, accepted practices, conventions, standards, and laws. Entrepreneurship education is more broadly aimed at information and skills needed by any entrepreneur, regardless of discipline or type of business. Typically, this education may include the areas of exploiting opportunities, finance, marketing, business form, and strategic planning (see, Neck & Greene, 2011).

Nearly two decades ago Adler & Milne (1997) offered that formal accounting education as a discipline did not do much to assist students prepare for entrepreneurship. They suggested that, at the least, accounting educators do more to help students with entrepreneurial issues by using course activities requiring active involvement such as use of case studies, group tasks, and experiential learning. Adler & Milne expressed the notion that these activities could enhance student interpersonal communication and thinking skills, and ultimately teach students to learn on their own.

In a general way, the highly specialized nature of accounting education may not be highly or even moderately compatible with what an entrepreneur must confront. It may be that the dissimilar aims of accounting education and entrepreneurship education create barriers to a student (1) thinking about starting one’s own business (attitudes, leanings), and (2) attending to the attainment of needed information central to springing a business to life.
Attitudes Toward Entrepreneurship

Here we bridge from attention to education for entrepreneurship to attention to student attitudes connected to a desire to creating one’s own business. For example, Kumara (2012) concludes there is little empirical research on the actual attitudes and feelings of college students related to entrepreneurial activities. Another conclusion Kumara makes (p. 107) is that business students who ultimately choose entrepreneurship are pulled towards it in contrast with being pushed towards it. “Pulled towards” suggests attraction and this represents attitude. These conclusions are generally supported in other studies (see, Martinez, Mora & Vila, 2007; and Roudaki, 2009) and help build an argument for the influence of attitude in making career choices.

Linked to the notion of influence of attitude on choosing to pursue entrepreneurship is what Nabi, et al., (2010) refer to as entrepreneurial maturity. They suggest that students who were more successful in actually starting their own business were more thorough in their study of: (1) career options, (2) new business start-up tasks and challenges, and (3) understanding of self (desires, skills, knowledge). Entrepreneurial maturity may be somewhat tangential to formal education for entrepreneurship and more connected to attitudes towards starting a business.

Attitude – Intention : Motivation – Self-efficacy

While there may not be a great amount of research, empirical or otherwise, on college student intention toward entrepreneurship (see, Kumara, 2012) there are a number of studies that examine business student intentions (see, for example, Kolveroid & Isaksen, 2006; Zhao, Hills & Seibert, 2005). Entrepreneurial intention is a component of motivation or drive. Intention directs one toward starting a business venture and is concerned with one’s willingness to pursue the goal and the amount of effort needed to achieve the goal. These considerations are largely grounded in Ajzen’s theory of planned behavior (Ajzen, 1991) in which intention is dependent on three factors: (1) one’s attitude toward the behavior, that is, one’s desire to, or attraction toward starting a business; (2) the subjective norm, or, whether other people (e.g. partner, role-model) want or expect one to do this; and (3) perceived behavior control, or, one’s perception of one’s possession of the resources and ability to start a business.
McStay (2008) makes two interesting points with reference to these matters. First, intention can be very clearly formed; however, the target behavior or action may not take place after all. Second, there is considerable support for the relationship: intention leads behavior. That is, intention signals a commitment to act and it precedes behavior. If intention is formed and is positively predisposed to propel one to act, what factors might impede or halt the actual behavior to enact the business start-up? Based on extant research and on the recognition of perceived behavioral control (see above), we conclude that self-perception of possession of needed resources, talents, and skills, or perception of self-efficacy to perform, can create the barrier between intention and action. Below, we explore the dynamics of self-efficacy.

In her study of entrepreneurial intention, McStay (2008) looked at the degree or extent to which perceived desirability of self-employment, perceived entrepreneurial self-efficacy, self-employment intention, previous work experience, and exposure to entrepreneurship education were related to actual self-employment. Using 429 undergraduate students, the research found, among other things, that both perceived desirability of self-employment and perceived entrepreneurial self-efficacy positively influenced self-employment intentions. Zhao et al., (2005) also found a positive and significant relationship between entrepreneurial self-efficacy and entrepreneurial intention.

The concept of self-efficacy, or one’s perception of their ability (skills, knowledge) to perform tasks/roles is an important factor in social learning theory. Bandura (1986) theorized that past behavior, environmental factors, and personal factors interact to create individual learning. Among the personal factors are the elements: affective, biological, and cognitive. An important cognitive factor is self-efficacy. McStay (2008, p. 42) concluded that, in the absence of self-efficacy regarding some action/objective, individuals make self-limiting decisions despite having the skills needed to pursue a path of action. Chen, Green & Crick, (1998) reported a similar conclusion, as they found a positive relationship between self-efficacy and one’s intention to start a business. Markham, Balkin & Baron (2002) suggest that self-efficacy reliably predicts scope of career options considered. Wang, Begley, Hui & Lee (2012) support the conclusion that individuals with higher entrepreneurial self-efficacy have higher entrepreneurial intentions. Further, those with higher self-efficacy also believe they have a viable idea for a new business. Also proposed was the idea that individuals with higher self-efficacy and higher intentions were more likely to be involved in entrepreneurship at some time in later life even though their entry
into entrepreneurship did not occur immediately following formal education, mentorship, or training.

Wilson, Kickul & Marlino (2007) questioned whether levels of entrepreneurial self-efficacy varied by gender and whether entrepreneurial self-efficacy was related to entrepreneurial intention. Their thinking paralleled that of Bandura (1997), that higher self-efficacy influences pursuit of a goal or task achievement and one’s persistence in effort. Regarding gender, Eccles (1994) found that women are likely to have lower expectations for success in a wide range of occupations. Using measures of entrepreneurial self-efficacy and entrepreneurial intention, Wilson and colleagues studied responses of 933 MBA students representing seven large programs in the United States. Women had lower scores than men and Wilson and colleagues concluded that self-efficacy can be a potential barrier to entrepreneurship for even the brightest and most confident women. They concluded that women may be placing starting their own business lower on the list of options than other career options for which they feel more prepared; and may exclude entrepreneurship from possible career options altogether.

This concludes the examination of relevant research into the influences upon college students with regard to the stated career choice of starting one’s own business. The following sections specify the details of the study as well as measures that may help predict entrepreneurial intention.

**RESEARCH METHODOLOGY**

**Purpose**

The findings discussed to this point indicate that, of the variables of formal education in entrepreneurship, informal support for entrepreneurial career choice, and perceived self-efficacy, the latter variable, perceived self-efficacy is likely the variable with the most influence in helping to establish entrepreneurial intention. This study is of the entrepreneurial intention of accounting students from the perspective of the attitudinal variables self-efficacy, core self-evaluation (CSE), and job dedication, all of which have been shown to positively and significantly correlate with success/performance on the job, with longevity in a job, and with persistence of effort in achieving goals. In addition, part of this study is the examination of the relationship between entrepreneurial intentions of
the students with the outcome variable, cumulative GPA, as past research has demonstrated positive and significant correlations of GPA with job performance.

**Research Questions - Propositions**

This section is shaped as five research propositions concerning the sample of accounting students.

1. The attitudinal variables: self-efficacy, core self-evaluation (CSE), job dedication; and cumulative grade-point average (GPA) will inter-correlate positively and significantly. The CSE measure contains a sub-scale, self-efficacy; hence an element of redundancy likely exists.

2. Measures of attitudinal variables: self-efficacy, CSE, and job dedication will correlate positively and significantly with measures of entrepreneurial intention, and entrepreneurial self-efficacy.

3. GPA will correlate positively and significantly with measures of entrepreneurial intention, and entrepreneurial self-efficacy.

4. The sub-samples of men and women will not differ on the measures of the attitudinal variables, GPA, entrepreneurial intention, and entrepreneurial self-efficacy. Prior research suggests that men will self-rate higher on entrepreneurial intention.

5. For measures that correlate positively and significantly with the variable entrepreneurial intention but not with each other, a regression model will be created. The proposition is that any regression model that demonstrates an adjusted $R^2$ of at least 50 per cent (arbitrary value) variance accounted for has useful and strong explanatory power.

**Participants**

Responses for measures used in the study came from 66 individuals enrolled across three sections of intermediate-level accounting courses during the fall semester 2015 and the spring semester 2016. All of the students were enrolled in the accounting curriculum and the accounting courses in question were taught by the same instructor in the daytime. The students are expected to complete all degree studies in the next 18 months and then enter the workforce, hence career considerations, including entrepreneurship are at hand. The students are enrolled in a state university in the Mid-Atlantic region of the U.S.
Student participation in the study was voluntary and university “informed consent” procedures were not applied as the research was intended for instructional purposes. Individual student identity was not part of the research. Of the participant group, 40, or 61 percent, were men; 26, or 39 percent, were women. Sixty-two, or 94 percent, are from the U.S. while four, or six percent, were from other countries to include China, Chad, and Nigeria. Regarding ethnicity, 29 percent were African-American, 57 per cent were Caucasian, and 14 percent were of other ethnicity (Hispanic, Asian, or a combination of others). The average age of the student sample is 21.7 years, GPA average is 3.02, paid work experience in years averaged 4.07, and average credit hours completed is 82.

Procedures and Measures

The five survey instruments/measures used in this research (self-efficacy, job dedication, core self-evaluation (CSE), entrepreneurial intention, and entrepreneurial self-efficacy) are relatively brief and were completed on paper by participants during class time in less than 20 minutes. GPA information was obtained from university student records. Details of each of the five measures follow.

Self-efficacy. In the past 35 years many measures of self-efficacy have been created. Many focus on a particular target or activity. For example, there are specific measures of self-efficacy for a certain job or profession, or self-efficacy for a particular sport or general exercise. We chose a measure (Sherer, Maddux, Mercandante, Prentice-Dunn & Rogers, 1982) that has been used frequently in empirical research in the past 34 years. It has a Cronbach alpha of .77; it consists of 17 items that use a five-point Likert-type scale. Examples of items are: a) I avoid facing difficulties, and b) Failure just makes me try harder.

Job dedication. Grounded on much research and past experience, the measure for this variable is a good indicator of work performance, in general, and of contextual performance, in particular. The measure was developed by Van Scotter & Motowidlo (1996) using large samples of air force personnel. The survey contains eight items, makes use of a 5-point Likert-type scale, and has a Cronbach alpha of .95. In 2012, Wang et al. used measures of job dedication with measures of conscientiousness and supervisor ratings of work performance and found very strong correlations. In other research (Bandura, Lyons & Sigerstad, 2013), the job dedication measure was found to be significantly
correlated with voluntary helpful behavior, in general, and with contextual performance. Examples of items are: a) I exercise personal discipline and self-control, and b) I ask for challenging work assignments.

Core Self-Evaluation (CSE). This measure may be the most robust of the measures used in this research. As such it requires detailed expression. In their meta-analysis of over 100 research studies, over a period of 15 years, Chang, Ferris, Johnson, Rosen & Tan (2012) concluded that CSE represents the fundamental appraisals individuals make about their self-worth and capabilities. We may infer that CSE is a baseline for individual appraisal. Timothy Judge (2009), one of the creators of CSE, reports that CSEs are fundamental, bottom-line evaluations people make about themselves. Similar to self-esteem, it is an appraisal of one’s self-worth. It appears to link clearly to behavior intention. Judge says that the concept is broader than self-esteem because it reflects beliefs in one’s “… capabilities (to control one’s life) and one’s competence (to perform, cope, persevere, and succeed) and a general sense that life will turn out well for oneself” (Judge, 2009, p. 58).

CSE as a concept and as a measure embodies four traits: self-esteem – an overall appraisal of one’s worth; self-efficacy – an estimate of one’s ability to perform and cope effectively within a broad range of situations; emotional stability – a propensity to feel calm and secure; and, locus of control – the belief that desired effects or outcomes result from one’s own behavior rather than by influential others or fate. These four traits are highly correlated and factor analytic study (Judge & Bono, 2001) demonstrates that the four traits define a specific, single factor. Stanhope, Pond & Surface (2013) found that CSE is positively related to motivation, goal commitment, goal setting, and performance. The same study found that CSE could predict affective, cognitive, and skill-based learning.

In their extensive review, Chang, et al., (2012) found that individuals with high CSE were more committed to goal pursuit and were more likely to be autonomously motivated. They reported correlations of CSE with: goal level (.22), goal commitment (.42), and intrinsic motivation (.33). Zhang, Wu, Miao, Yan & Peng (2014) found that employees with high CSE were more likely to set higher goals and expend more effort at work. They found strong, positive correlations of CSE with job satisfaction (.43), and with career commitment (.16). They also posited that the strong relation of CSE with job satisfaction may be independent of external rewards such as higher pay, greater benefits, bonuses, and similar payoffs. One study (Judge, Van Vianen & DePater, 2004) reported
that CSE scores were positively associated with career ambitions among university students. It is not unusual to find that CSE scores correlate positively with academic achievement (GPA) and with cognitive ability although a few studies report significant differences.

The core self-evaluation (CSE) measure is represented by a 12-item survey with five response categories (from strongly agree to strongly disagree). CSE as a direct measure has much validation evidence (Gardner & Pierce, 2010; Stumpp, 2010). It has acceptable internal consistency, test-retest reliability, and convergent and discriminant validity. Examples of items are: a) I am filled with doubts about my competence, and b) When I try, I generally succeed.

Entrepreneurial Self-efficacy. This characteristic was measured with a 6-item self-assessment scale. Wilson et al. (2007) reported that scale items represent competencies related to entrepreneurial and business success and were grounded on expert interviews with business leaders. MBA students, as respondents to the scale, were asked to compare themselves to relevant others in the business world in various skill areas. The six items included: “being creative”, “managing money”, “being able to solve problems”, “making decisions”, “being a leader”, and “getting people to agree with you”. Internal reliability was .82. The measure was validated in the research of Kickul & D’Intino, 2004).

Entrepreneurial Intention. Intentions are measured by asking participants to rate their interest in starting or owning their own business (see Wilson et al., 2007). On a 5-point Likert scale (1=definitely not interested, 5=extremely interested) participants offered their ratings. For purpose of analysis responses were coded as a “1” for somewhat or extremely interested or “0” for any of the other three response categories.

RESULTS

Descriptive statistics for the variables appear in Table 1 and Table 2 displays correlation information.
Table 1: Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Score</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-Efficacy</td>
<td>68.15</td>
<td>8.49</td>
</tr>
<tr>
<td>Core Self-Evaluation</td>
<td>46.05</td>
<td>6.70</td>
</tr>
<tr>
<td>Job Dedication</td>
<td>30.06</td>
<td>5.11</td>
</tr>
<tr>
<td>Grade Point Average</td>
<td>3.02</td>
<td>.62</td>
</tr>
<tr>
<td>Entrepreneurial Intention</td>
<td>3.63</td>
<td>1.23</td>
</tr>
<tr>
<td>Entrepreneurial Self-Efficacy</td>
<td>22.67</td>
<td>2.78</td>
</tr>
</tbody>
</table>

Table 2: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Self - Efficacy</th>
<th>CSE</th>
<th>JD</th>
<th>GPA</th>
<th>EI</th>
<th>ESE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Self Evaluation (CSE)</td>
<td>.578**</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job Dedication (JD)</td>
<td>.409**</td>
<td>.107</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grade Point Average</td>
<td>.160</td>
<td>.164</td>
<td>.273*</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Intention (EI)</td>
<td>-.084</td>
<td>.011</td>
<td>.057</td>
<td>-.189</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Self – Efficacy (ESE)</td>
<td>.308**</td>
<td>.294*</td>
<td>.111</td>
<td>-.070</td>
<td>.317**</td>
<td>---</td>
</tr>
</tbody>
</table>

* p < .05  ** p < .01

Much of the material in this section is related to Table 2 information. Proposition 1 stated that self-efficacy (SE), core self-evaluation (CSE), job dedication (JD) and grade point average (GPA) would intercorrelate positively
and significantly. This proposition partially holds. SE and CSE are highly related. CSE, a more complex measure, contains a self-efficacy sub-scale. SE and job dedication (JD) are highly related – JD as a measure has repeatedly been shown to be highly related to job performance, in general, and to contextual performance, in particular. SE has also been found to be strongly related to job performance. CSE is positively related to JD but not significantly.

The performance variable, GPA, is positively related to the other three variables, but the only significant relationship is with JD. Both GPA and JD have been shown to correlate highly with various components of job performance.

Proposition 2 stated that SE, CSE, and JD will correlate positively and significantly with measures of entrepreneurial intention (E-intent) and entrepreneurial self-efficacy (ESE). Proposition 2 is partially supported. This proposition holds mainly for the relationships of the three variables (SE, CSE, JD) and ESE. The relationship of ESE with SE and CSE is positive and significant. All three variables with self-efficacy content are highly related and results, in this instance, largely mirror results of previous research. E-intent is negatively associated with SE and only slightly, positively associated with CSE and JD. ESE and E-intent correlate positively and significantly and this result is consistent with past research.

**Table 3: Performance and Entrepreneurial Tendencies**

<table>
<thead>
<tr>
<th></th>
<th>GPA Mean</th>
<th>GPA SD</th>
<th>Entrepreneurial Intention Mean</th>
<th>Entrepreneurial Self – Efficacy Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Men</strong> (n=40)</td>
<td>2.96</td>
<td>.089</td>
<td>3.80</td>
<td>22.90</td>
</tr>
<tr>
<td><strong>Women</strong> (n=26)</td>
<td>3.03</td>
<td>.138</td>
<td>3.38</td>
<td>22.31</td>
</tr>
<tr>
<td><strong>Total</strong> (n=66)</td>
<td>2.98</td>
<td>.076</td>
<td>3.64</td>
<td>22.67</td>
</tr>
</tbody>
</table>

Proposition 3 stated that GPA would correlate positively and significantly with measures ESE and E-intent (we refer below to these two concepts as elements of entrepreneurial tendency). This proposition is not supported as GPA, a performance variable, is negatively associated with both variables although not
significantly so. The connection of academic performance (GPA) with intention to start one’s own business is weak.

Table 4: *t*-tests for Gender and Entrepreneurship Tendencies

<table>
<thead>
<tr>
<th></th>
<th>Men – Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>GPA</td>
<td>.075  not significant</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td></td>
</tr>
<tr>
<td>Intention</td>
<td>.740  not significant</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td></td>
</tr>
<tr>
<td>Self-Efficacy</td>
<td>.169  not significant</td>
</tr>
</tbody>
</table>

Proposition 4 stated that the sub-samples of men and women would not differ on the measures of the attitudinal variables, GPA, entrepreneurial intention, and entrepreneurial self-efficacy. Prior research suggests that men will self-rate higher on entrepreneurial intention. Table 3 presents descriptive information on gender, GPA, E-intent, and ESE. No significant differences were found per gender with any of the variables used in the study. In Table 4 is displayed the results of *t*-tests of genders and the two entrepreneurial tendency variables. None of the tests are significant. Men did rate higher on E-intent but the difference among men and women was not significant. Proposition 4 is generally supported.

Proposition 5 stated that for measures that correlate positively and significantly with the variable entrepreneurial intention but not with other variables, a regression model will be created. Imposition of these conditions results in no regression model creation. ESE does correlate positively and significantly with E-intent, however, ESE also correlates positively and significantly with SE and CSE.
DISCUSSION

This exploratory study seeks to examine the entrepreneurial intentions of accounting students and the relationship of one’s perceived self-efficacy with entrepreneurial intention. Because prior research (see, for example, McStay, 2008) has suggested that entrepreneurial self-efficacy is an important antecedent of entrepreneurial intention we also examined the connections of entrepreneurial self-efficacy with other, frequently employed and valid, measures of self-efficacy.

The present study confirms other research using similar measures of entrepreneurial tendencies (Zhao et al., 2005; McStay 2008). Entrepreneurial self-efficacy is highly correlated with entrepreneurial intention. Of course, the actual starting of one’s own business is not the same as expressing an intention to do so. There is very little research of a longitudinal nature that reports on the intention and follow-through. A longitudinal study of stated intention and later follow-through per the intention would be valuable. Entrepreneurial self-efficacy is highly correlated with other measures of self-efficacy; among them is core self-evaluation (CSE). The CSE construct is representative of other additional factors (self-esteem, emotional stability, locus of control) along with self-efficacy. These other factors as positive correlates with entrepreneurial self-efficacy may be regarded as amplification of the value and worth of the entrepreneurial self-efficacy measure as a predictor of intention. Also, this particular relationship, CSE – entrepreneurial self-efficacy, helps to support the theoretical underpinning of the latter concept. In general, study results offer support for the measure, entrepreneurial self-efficacy, in terms of the relationship with entrepreneurial intention and construct validity with regards to other, valued measures of self-efficacy.

We had hoped to discover positive relationships of both entrepreneurial self-efficacy and entrepreneurial intention with general performance indicators. There is presently no other research that reports such relationships. We used collegiate GPA as a general performance measure and score on a job dedication (JD) measure, which has served as a proxy for general performance in several studies (for example, see Bandura et al., 2013) as well as an indicator of contextual performance. The latter concept is representative of voluntary, helpful behavior on the job as well as social facilitation among co-workers. Both entrepreneurial tendency measures correlate positively, but not significantly, with JD while the two measures correlate negatively, but not significantly, with
GPA. This finding suggests that higher performing accounting students are less likely to think about starting their own accounting small business. An interesting finding is that core self-evaluation (CSE) is highly related to entrepreneurial self-efficacy and CSE has repeatedly been shown to correlate positively with various measures of job performance (see Judge, 2009; Judge, et al., 2004).

We did not use GPA per students’ work in accounting courses, only. Instead, we used GPA for students’ entire collegiate experience. This may be a limitation of the study. Had we used grades for accounting courses only, we may have had a different result. GPA for collegiate career, in this case, represented performance over many courses, perhaps as many as 25 three-credit courses. Using grades for accounting courses exclusively would mean that only six or seven three-credit courses would figure into the performance measure.

Traditionally, a small proportion of accounting graduates seek to start their own business. Of all accounting graduates, some may eventually start an accounting practice but only after they attain some experience in the profession. It may be that accounting students are formally and informally counseled by accounting faculty and/or accounting professionals not to think about starting one’s own business – rather – to commence a career in the employ of a respected accounting firm. Some research (Rae & Woodier, 2006) supports these notions. As well, significant others (partners, friends, family) often have substantial influence over one’s career choices and decisions (see Nabi, et al. 2010).

One of the limitations of this research is the relatively small sample size (n=66). Sample size compromises examination of gender differences as our male participants number 40 individuals and the female participants number 26 persons. Given this limitation we find no difference in the genders with regard to both entrepreneurial tendency measures. This is counter to the research of Wilson, et al. (2007), which found significant differences in genders, with men having significantly higher scores than women.

CONCLUSIONS

We offer conclusions as a number of points:

- Research such as represented in this paper should make use of larger samples perhaps in the hundreds of participants and/or using participants from a variety of academic backgrounds,
• For future research it would be desirable to use the variables, entrepreneurial intention and entrepreneurial self-efficacy, in longitudinal study designed to help determine the predictive value of the measures,
• Owing to its concurrent and construct validity, this study adds to the value of entrepreneurial self-efficacy as a useful measure,
• This study, reflective of most studies regarding attitudes of individuals, does not shed any new light on the transition from intention to actual business start-up,
• The construct, core self-evaluation (CSE), potentially has much value for use in faculty counseling of students interested in entrepreneurship,
• Entrepreneurial self-efficacy appears to be an antecedent of entrepreneurial intention although intention is not anchored by experience,
• This study amplifies the value of the measure, entrepreneurial self-efficacy for career counseling, and
• The entrepreneurial self-efficacy measure has manifold uses for faculty in entrepreneurship education.

REFERENCES


A RELATIONAL APPROACH TO MATCHING INTERFIRM EXCHANGES BETWEEN SME EXECUTIVES AND CORPORATE BUSINESS EXECUTIVES

Eric R. Kushins
Mercer University

ABSTRACT

Research on interfirm exchanges is often concerned with networked partners and the strategic choice between informal and formal governance mechanisms to curb opportunism and to provide optimal exchange performance. However, Viviana Zelizer’s model of “good matches” provides an important cultural perspective about the meaning of transactions within relationships that can provide a more theoretically complex account of these exchanges. In this article, interfirm exchanges between small business executives and large corporate business executives are analyzed with Zelizer’s framework. This research is based on interviews with 22 chemical industry businessmen and women. I find that “good matches” based on relationship type (strong or weak ties) between small business and corporate executives lead to certain kinds of economic transactions (routine or non-routine exchanges) and forms of governance, or transacting media (formal contracts or informal agreements) that helps to sustain relationships between executives, leading to future transactions. The findings extend the good matches framework to interfirm exchange partners leading to the development of a new model that small business and strategy researchers should consider in their studies. The paper concludes with strategies on how small businesses may capitalize on developing unique types of relationships with executives in corporate businesses.

Keywords: SMEs, governance mechanisms, trust, networks, interfirm exchanges, qualitative methods

INTRODUCTION

Interfirm economic exchanges, transactions and alliances are found to be critical to SME growth (Barringer & Greening 1998). Research on these
exchanges has increasingly focused on social networks and governance mechanisms. Researchers have suggested that various exchange relations—from short-term, routine transactions to long-term, complex alliances—require different types of controls to curb opportunistic behavior (Williamson, 1985, 1991). These mechanisms are typically identified as either formal contracts that are legally enforced, or informal relations that involve shared social norms, trust, and reciprocity (Poppo & Zenger, 2002; Zhou, Poppo, & Yang, 2008). Within the context of governance mechanism selection, it is believed that the stronger the ties two individuals or firms have to each other, the greater the chance SMEs have to develop interfirm alliances (BarNir & Smith, 2002) and the more likely that firms will not pursue opportunistic behaviors (Hoetker & Mellewigt, 2009).

Rather than viewing economic exchanges according to network ties, trust and ways in which opportunistic behavior may be held in check, a cultural approach to economic exchanges that emphasizes relational work can identify how shared meanings of interpersonal relationships shape interorganizational transactions (Zelizer, 2012). A relational work perspective provides us a framework by which we can understand how interfirm relationships develop, why different types of interfirm exchanges take place between different kinds of firms, and how certain exchange media are appropriately selected to facilitate those exchanges.

In order to contribute to the literature on SMEs and interfirm exchanges, this study reports on interviews with executives from SMEs and large corporations in the chemical industry who regularly engage in a variety of interorganizational exchanges. These relationships and transactions are analyzed using the concept “good matches,” developed by economic sociologist Viviana Zelizer. In this model, individuals negotiate different kinds of relationships with appropriate types and forms of economic exchanges to define and reinforce affiliations. Originally developed to explain a variety of interpersonal relationships, this study extends Zelizer’s model to account for the different patterns of communication within and between executives at transacting partner firms. The data suggests that intra- and inter-firm patterns of communication are critical components to understanding relationship formation and exchange decisions. This study puts forth an interfirm model of exchange that accounts for the complexity of relational work in interfirm transactions and provides a framework for assessing the appropriate economic transactions that may improve the likelihood of successful exchange outcomes.

The research reported here identifies how the close relationships SME owners and managers form with executives of large business (hereafter referred
to as “corporate” businesses) uniquely influence economic exchanges. Three implications are developed from the findings. First, interfirm relationships between SME business executives and corporate executives are enabled by industry events and encouraged by SMEs themselves. More specifically, the exposure and regular contact between SME executives’ and corporate executives’ families fosters sentiment and relational trust. Second, corporate executives look to SME business executives to develop time-sensitive, non-routine, short-term transactions and long-term strategic alliances. These complex transactions are enabled by: 1. corporate executives’ access to SME executives, and 2. informal and rapid SME organizational decision-making. The third implication is that SMEs can take advantage of the desire corporate executives have to form relationships between executives’ families, resulting in relations with high levels of sentiment. SME executives’ commitment of time and resources to fostering strong emotionally laden relationship with corporate executives can provide SMEs with a competitive advantage when pursuing interfirm business deals with corporate executives.

**INTERFIRM GOVERNANCE: TRANSACTION COSTS, NETWORK AND TRUST PERSPECTIVES**

Researchers have focused on governance mechanisms as the primary point of analysis to understand how organizations attempt to prevent opportunism and decrease transaction costs in exchange relationships. Theses mechanisms take one of two forms—formal governance that is realized quintessentially as written, legally-enforced contracts; and informal, relational governance that is characterized by shared norms, trust, and reciprocity of privileged information (Poppo & Zenger, 2002; Li, Poppo, & Zhou, 2010). This division of interfirm governance mechanisms suggests that exchanges can be understood according to network concepts: weak, arm’s-length ties and strong, embedded ties (Uzzi, 1999).

Weak tie approaches focus on the short term and on the governance problems described in transactional cost economics (Williamson, 1985). According to this perspective, an increase in exchange hazards and uncertainty of exchange partner fulfillment of obligations will lead to greater use of formal, legal-based contracts to enforce cooperation (Williamson, 1991). On the other hand, strong ties are identified as long-term, collaborative exchanges, based on high levels of trust.
Personal obligations and value-consensus between relationship partners helps build assurances against opportunism (Granovetter, 1985; Sako, 1992).

Although transaction cost theories suggest that commercial relationships are based on calculated risk (Williamson, 1985), social network researchers argue that trust is a precondition for interfim relationships and successful coordination. This is especially the case in modern economics where knowledge-intensive and information-based modes of production necessitate sharing of sensitive information (Ring & Van de Ven, 1992). The social network perspective highlights the role of embeddedness in mitigating the agency costs in a relationship (Granovetter, 1992). Embeddedness of firms in network structures is believed to lead to high levels of trust creation through information sharing and joint problem solving between parties (Gulati, 1995; Uzzi, 1997). Trust in relationships provides individuals or organizations the belief that the vulnerability implicit in these relationships will not be taken advantage of by one of the involved parties (Lane and Bachmann, 1996). Some researchers suggest that the interdependency of trust is bound to its context and role as a control and sanctioning mechanism (Bradach & Eccles, 1989; Welter, 2012) or that interfim trust comes in different forms depending on the degree of firm vulnerability (Barney & Hansen, 1995).

Although recent research suggests that formal contractual and networked governance mechanisms may complement or interact in complex ways (Zenger, Lazzarini, & Poppo, 2001; Poppo & Zenger, 2002; Li, Poppo & Zhou, 2010), this perspective seems to perpetuate the illusion that the market is fundamentally asocial, where some exchanges involve embedded relations, while others are simple quid pro quo economic transactions (Dyer & Singh, 1998). Furthermore, while some strategy scholars suggest that exchange partners may move from interfim governance that operate along impersonal, contract-based mechanism to those of relational trust and network embeddedness over time (Hoetker & Mellewigt, 2009), the data typically analyzed is cross-sectional and thus cannot demonstrate these changes (Zenger, Lazzarini & Poppo, 2001). Moreover, researchers seem to describe the selection of governance mechanism as a choice made by one partner firm, and its implementations as unidirectional. This perspective does not offer an understanding of the process by which governance selection may take place, nor how a shared sense of social norms, trust, and reciprocity may emerge over time. Finally, these theories do not provide models that help to explain the creation of interpersonal relational meanings and the
appropriate matching of the economic exchange with the governance mechanism.

Instead of an approach centered on economic rationality with an emphasis on how governance mechanisms can safeguard against opportunism, interfirm exchanges can be viewed as social constructions, developed out of relational work between partners (Mische, 2011). Cultural scholars emphasize that all economic transactions and modes of governance, including contracts, are fundamentally social interactions (Lindgren & Packendorff, 2009). Table 1 provides a summary of the differences between governance mechanism and relational work perspectives. The focus of analysis according to a relational perspective is the economic exchange based on the shared meanings of the partner relationship. Social ties and trust are of course a part of relationships and many exchanges may also be facilitated by formal contracts, but a relational approach provides critical nuance to identify and distinguish different types of social relations and the appropriate trust associated with it. Moreover, a relational approach repositions governance mechanism as types of “media exchange” that facilitate transactions, rather than curb against opportunism as an economic approach would offer.

Table 1: Perspectives of Research on Governance Mechanism and Relational Work

<table>
<thead>
<tr>
<th>Discipline Background</th>
<th>Governance Mechanisms</th>
<th>Relational Work</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Economics</td>
<td>Sociology</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Governance is necessary to curb opportunism</th>
<th>The transacting media sustains and provides meaning to the relationships</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Point of Analysis</th>
<th>Organization</th>
<th>Economic exchange</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Perspective on Networks</th>
<th>Weak-tie (no relationship) or strong-ties (long-term relationships) typify different economic transactions</th>
<th>All economic exchanges are relational</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Opportunity for</th>
<th>Static for any particular</th>
<th>Constantly negotiated</th>
</tr>
</thead>
</table>
### Types of Mechanisms

<table>
<thead>
<tr>
<th>Change</th>
<th>Deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various social norms and levels of trust are always involved, formal contracts may also be a part of some transactions.</td>
<td></td>
</tr>
</tbody>
</table>

### Factors of Influence

| Tie strength, network embeddedness, asset type, asymmetric dependency | Relationship type, ongoing interactions between parties, form and type of economic exchange |

### Explanatory Power

| Optimal selection of control mechanism to enable productive interfirm exchanges | A framework to analyze how the form and type of economic exchange together, helps to manage relationships |

Both perspectives suggest appropriate matches are necessary for “productive” outcomes. In the case of governance mechanism research (transaction cost economics, network ties and trust), this typically means matching formal or informal control mechanisms with tie strength and asset type to curb opportunism and enable productive economic outcomes for both parties. In the case of relational work, this means a meaningfully exchange where both the kind of transaction and type of exchange media match the meaning of the relationship to reaffirm the relationship’s meaning and confirming each parties’ commitment to each other.

**Relational Work: Good Matches Perspective**

In her work on interpersonal relationships, Zelizer claims that “good matches” between relational partners and economic transactions distinguish particular relationships from others, reinforce a shared understanding of the relationship, and clarify to other parties the nature of that relationship.

*By a good match I do not mean that you and I would approve of the bargain or that the match is equal and just. Instead, I mean that the match is viable: It gets the economic work of the relationship done and sustains the relationship. A set of economic transactions that would reinforce a husband-wife bond, for example, could ruin a relationship between boss and secretary. Relations matter so much that people work hard to match them with appropriate forms of economic activity and clear markers of those relations’ character. (Zelizer, 2006, p. 307)*

There is a limit to how culturally comfortable we are with sentiment in the marketplace. While business relationships may involve emotional elements,
Zelizer suggests that we still theoretically distinguish the realms of intimacy and economics as separate spheres. The perceived threat of intimacy stems from classic economic approaches that divide social life into two spheres or social worlds—one that operates along the principles of rationality, efficiency and planning, and the other according to solidarity, sentiment, and impulse. “In the separate spheres account, a sharp divide exists between intimate social relations and economic transactions. Left to itself, goes the doctrine, each sphere works more or less automatically and well…[C]ontact between them produces moral contamination” (Zelizer 2009, p. 27). But in practice, Zelizer argues that the world does not operate according to these distinctions. Rather than corrupting intimacy or causing inefficiency, people work hard to match different types of economic exchanges—both type of transaction (e.g. money or specialized gift) with media of transaction (e.g. cash or prepaid debit card) to the appropriate relationship (e.g. spouse or secretary) in everyday social interactions (Zelizer, 2005, 2006).

The significance of Zelizer’s account of good matches is in the form of the transaction and the implications of the transacting media to reinforce the shared meaning of the relationship. For example, during the winter holiday season, many employees hope to receive a financial bonus for successful work throughout the year. If an employee is given a chocolate Santa instead of a bonus, we can see how this would be an inappropriate transaction—the employee expected payment for hard work, not a gift. This improper form of transaction (let alone the low cost of the chocolate Santa, which constitutes the media of the gift exchange) may ruin the relationship between the employee and the employer because the relational meaning and economic exchange expectation was violated. The consequence may lead to lowered employee performance.

Nevertheless, gift giving is an appropriate transaction in other holiday exchanges. We can see how it would be appropriate for a husband to give a gift in the media of diamond earnings to his wife, but it would be inappropriate as a media of gift exchange for his secretary. Not only are diamond earrings too high-priced a gift in a workplace relationship, but common meaning behind items such as jewelry (particularly jewelry given by a man to a woman), implies a high level of intimacy. Such intimacy is typically improper in a relationship between a boss and a secretary. Thus, a boss and secretary are aware of the boundaries that distinguish their relationship from others, and the crossing of those boundaries is picked up as unsuitable and rule-breaking, and could lead to ruining the relationship. This “simple” gift transaction is in fact an exchange that reinforces
the meaning of the relationship. Again, an exchange violation may fundamentally alter this tie. Neither transaction costs economics, social network analysis, nor trust theories provide concepts to account for the critical nuance of the type of economic exchange and the media of exchange that helps to reinforce these relationships.

**Figure 1: Exchange Relationship**

<table>
<thead>
<tr>
<th>Type of Relationship</th>
<th>Economic Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Transaction</td>
<td>Transaction</td>
</tr>
<tr>
<td>Media</td>
<td>Media</td>
</tr>
</tbody>
</table>

The “good matches” framework provides important cultural insights and social meanings to the complex ways in which different kinds of interfirm relationships guide exchanges. According to a relational work perspective, this study suggests that when comparing the relationships between corporate executives and SME executives, and between corporate executives and other corporate executives, differences will exist between the kind of economic transactions (short-term routine or non-routine exchanges and long-term complex alliances) and the media of the transaction (formal contract or informal agreements) to match each relationship’s meaning. The choice of economic exchange—the kind of transaction and media of transaction—according to a relational approach should match the *shared meaning* of the relationship.

**Data**

*Chemical industry*

The chemical industry is ideal for researching interfirm executives’ relationships and economic exchanges between SMEs and corporate firms. Broadly defined, chemical manufacturing and product development is a $760 billion industry in the United States, supporting nearly 25% of U.S. GDP, accounting for 12% of U.S. exports, and employing over 1 million individuals (American Chemistry Council, 2013; Henderson, 2012). While most industries in the U.S. have a variety of small and large firms, the chemical industry proved to
have a mix of SME and corporate firms “neatly” divided among the different parts of the industry supply chain.

The industry is generally separated into three divisions: raw material manufacturers (those who take chemicals from the ground and refine them), distributors (those who formulate a variety of new ingredients or “specialty chemicals” from raw and refined chemicals), and end-product producers (companies that join a variety of refined and formulated chemicals into products found on the supermarket shelf). Most chemical distributors are SMEs (NACD, 2011) while most raw material manufacturers and end-product producers are large corporations, and typically publicly traded companies. This study specifically sought out interviews with executives of end-product producers and distributors, and the data focuses on these two parts of the supply chain.

Participants

Interviewees included 22 businesspeople whose work experience includes both SMEs as well as large corporations in the chemical industry. Having experienced both sides of the table in deals between small businesses and larger corporate businesses provides interviewees a unique comparative perspective to discuss interfirm business relationships and deal making. Furthermore, this sample of executives held a variety of organizational positions at the time of the interviews, from CEO to VP of Business Development to Chemist. This range of experiences and positions provided the opportunity to cross reference different types of exchanges, transacting media, and sentiments expressed by interviewees at different positions in their organizations. See Table 2 for further descriptive details of participants.

Table 2: Descriptive Information of Interview Participants

<table>
<thead>
<tr>
<th>Position at Time of Interview</th>
<th>Gender</th>
<th>Age</th>
<th>Race / Ethnicity</th>
<th>Years in Chemical Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Executives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>President</td>
<td>male</td>
<td>45</td>
<td>white</td>
<td>12</td>
</tr>
<tr>
<td>CEO and Owner</td>
<td>male</td>
<td>45</td>
<td>white</td>
<td>21</td>
</tr>
<tr>
<td>Director of Marketing</td>
<td>male</td>
<td>42</td>
<td>white</td>
<td>12</td>
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<tr>
<td>President</td>
<td>male</td>
<td>79</td>
<td>white</td>
<td>50</td>
</tr>
<tr>
<td>Position</td>
<td>Gender</td>
<td>Age</td>
<td>Race</td>
<td>Years</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>--------</td>
<td>-----</td>
<td>---------------</td>
<td>-------</td>
</tr>
<tr>
<td>VP Sales and Marketing</td>
<td>male</td>
<td>68</td>
<td>white</td>
<td>38</td>
</tr>
<tr>
<td>President</td>
<td>female</td>
<td>52</td>
<td>white</td>
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<tr>
<td>President</td>
<td>male</td>
<td>58</td>
<td>white</td>
<td>33</td>
</tr>
<tr>
<td>CEO and Owner</td>
<td>male</td>
<td>50</td>
<td>white</td>
<td>29</td>
</tr>
<tr>
<td>Senior VP</td>
<td>male</td>
<td>65</td>
<td>white</td>
<td>39</td>
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<tr>
<td>Chemist</td>
<td>male</td>
<td>71</td>
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<td>40</td>
</tr>
<tr>
<td>VP R &amp; D</td>
<td>male</td>
<td>75</td>
<td>white</td>
<td>43</td>
</tr>
<tr>
<td>VP Sales and Marketing</td>
<td>male</td>
<td>65</td>
<td>white</td>
<td>41</td>
</tr>
<tr>
<td>Managing Director</td>
<td>male</td>
<td>62</td>
<td>white</td>
<td>12</td>
</tr>
<tr>
<td>Retired CEO and Owner</td>
<td>male</td>
<td>85</td>
<td>white</td>
<td>56</td>
</tr>
<tr>
<td><strong>Corporate Business Executives</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>General Manager</td>
<td>male</td>
<td>51</td>
<td>white</td>
<td>27</td>
</tr>
<tr>
<td>VP Business Development</td>
<td>male</td>
<td>67</td>
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<td>44</td>
</tr>
<tr>
<td>Senior Account Manager</td>
<td>male</td>
<td>64</td>
<td>Middle Eastern</td>
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</tr>
<tr>
<td>VP Business Development</td>
<td>male</td>
<td>67</td>
<td>white</td>
<td>34</td>
</tr>
<tr>
<td>Senior VP</td>
<td>male</td>
<td>66</td>
<td>white</td>
<td>36</td>
</tr>
<tr>
<td>VP Supply Chain Management</td>
<td>female</td>
<td>50</td>
<td>white</td>
<td>17</td>
</tr>
<tr>
<td>VP New Product Development</td>
<td>male</td>
<td>62</td>
<td>white</td>
<td>33</td>
</tr>
<tr>
<td>Retired VP Business Development</td>
<td>male</td>
<td>72</td>
<td>white</td>
<td>45</td>
</tr>
</tbody>
</table>

Executives primarily worked in the sectors of personal care, home care and industrial cleaning, and packaged food. All of those interviewed worked in the chemical industry for a minimum of 12 years, with an average of nearly 33 years. The gender and race demographics of the sample approximate the population demographics of high-ranked management executives in the U.S. chemical industry, predominantly white and male. All interviewees worked at their companies’ main offices and primarily conducted business in the Northeast. The sizes of the small business distributors interviewees worked at (or worked with) ranged from a single eight-employee office to a company with approximately 100 employees. Companies with these numbers of employees and limited amount of resources are typically identified as SMEs (Alvarez & Barney 2001). The large chemical companies where interviewees worked were all publicly traded international corporations with thousands of employees.
METHOD

Data were collected through semi-structured, in-depth interviews all conducted by the author. Interviewees were told that the premise of the interview was to provide an understanding of how business is conducted in the chemical industry. Nearly all the executives were currently working in the chemical industry at the time of their interviews and actively involved in exchange relationships on a daily basis as part of their job responsibilities. Thus, there is little concern that interviewees are reconstructing memories from long ago that are not valid representations of actual interactions.

Access to the first group of several interviewees was initiated by an acquaintance who worked in the industry and who vouched for my credentials and reputation, a typical way to access business executives for academic research (Morrill, 1996). Subsequent contacts for interviews were made through snowball sampling (Biernacki & Waldrof, 1981) until a diverse sample of insiders was reached and the repetition of themes and sentiments suggested that data collection was nearing saturation. Interviews primarily took place at the employees’ business, and lasted from extremes of 35 minutes to 14 hours, with a median and mode of approximately 90 minutes. When additional interviews did not provide new insight, data collection ceased.

Analysis

This research was theoretically driven in that Zelizer’s framework was used to develop the questionnaire protocol and to initially evaluate the data. The Straussian approach (Strauss, 1987; Strauss & Corbin, 1998) of induction, deduction, and validation was used to analyze the data. Preliminary data exploration involved an iterative process of working back and forth between the Zelizer framework and the emerging themes from the transcribed interviews. The traditional two coding level approach to developing themes from the data (Glaser & Strauss, 1967; Gioia, Corley, & Hamilton, 2013) was followed. Adhering closely to the informants’ stories and ideas of interfirm exchange relationships, numerous first-order categories were identified. Subsequently, broader second-order themes were created to capture much of the nuance identified in the first-order categories. Analyzing the data in this systematic way enabled faithfulness to the informants as well as the opportunity to be critical of the Zelizer framework. It became clear from the data that the Zelizer model required
extension to account for the repeated themes found among interviewee data (Eisenhardt & Graebner, 2007).

Results

Development and Maintenance of Relational Ties Among Executives

To understand the application of the good matches framework to interfirm transactions, we must first understand the creation of relationships between different executives. The corporate executives interviewed were clear that their relationships with other corporate executives were different from relationships they had with SME executives. They claimed these differences often developed from the repeated and frequent interactions they had with multiple members of SMEs. As one corporate executive explained, “…you get intertwined with [them] and build that strong relationship…That doesn’t happen in a corporation. You don’t have that relationship.” This intertwining, another corporate executive noted, was not a result of a “once-off meeting, but you somehow wind up seeing them a lot. They wind up inviting you to things all the time. And it’s nice to see ‘em.” Most executives spoke about these repeated interactions that engenders trust that solidifies and sustains relationships (Adler & Kwon, 2002; Gulati, 1995).

Relationships primarily of high instrumental value can develop into more intimate affiliations. However, this is not something that merely happens based on some sort of undifferentiated frequent set of interactions often eluded to in the governance mechanism literature (Poppo & Zenger, 2002; Zenger, Lazzarini, & Poppo, 2001). Explicit types of situations and activities that help foster sentiment are required for relationships to develop emotional attachment, greater trust, and meaning. The high affect and trusting relationships many corporate executives say they form with SME executives are fostered outside of explicit business-to-business deal making that involve developing relationships with executives’ families. Interviewees described two primary contexts that facilitate the development and the continuation of relationships between SME and corporate executives: industry-sponsored trade shows, and small business-sponsored social events.

One setting in which significant interactions between executives from different businesses takes place is at trade shows. Several corporate executives noted that it is at these shows (when chemical distributors rent booths to advertise their products and services) where they often meet extended families of SME executives. Corporate executives said that sometimes they did not know
whether some of the individuals they met at trade shows were even involved in the business. One executive said:

[T]here’s much more of that feeling of, ‘Oh, I should bring my wife’...Somebody starts to come out of the wood work...All of a sudden the mother shows up and this one shows up, everybody sort of jumps in, and people you didn’t know show up and therefore your relationship changes.

This executive suggests that perhaps where the relationship was once more about two executives conducting business quid pro quo, relational aspects become more pronounced and change when family comes “out of the wood work.” When SME executives were asked about bringing family members to these events, the responses included: “it seemed appropriate”, “why wouldn’t I?”, and “I figured some of these folks [other executives] should see the kids I talk about all the time.” This relational change is more than businesspeople becoming “chums” over beers and stories at the bar. According to the executives interviews, the introduction of executives’ family members—whether a husband and wife working as copreneurs (Blenkinsopp & Ownes, 2010), non-employee family members, or even the young children of the business owner—establishes a more intimate and meaningful relationship than can be established between executives alone.

In contrast, family introductions typically do not take place between two corporate executives’ families. Some corporate executives said that their companies actually have policies that prohibit these interactions, in that families are not allowed to attend trade shows or associated business activities. One executive added that, “in most businesses today, you don’t know people’s spouses. You don’t know any of that stuff. In corporate America today, if you go out for dinner in the chemical industry, or any industry, it’s usually only the business people.” Making corporate organizations’ representation at trade shows exclusive to corporate executives “makes sense” to organizations that intend to minimize sentiment in business exchanges and encourage instrumental relationships.

In addition to trade shows, SMEs also coordinate nonbusiness events primarily for relationship building purposes. One SME executive interviewed proudly spoke of the tailgating parties the company held outside of local football games. At these events, the families of large corporate customers come together with the SME executives’ families. “We have a Winnebago, and we’ll have forty
to fifty people for the [football] game...And it’s a real family atmosphere—
customers bring their kids, employees bring their kids. My wife caters the whole 
thing.” Other SME executive mentioned dinners they would invite corporate 
executives to, local carnivals and festivals they attended with the families of 
corporate executives, and summer barbeques one SME executive hosts each 
year. The opportunities for families of corporate business executives to engage in 
activities with the families of SME executives creates relationships that are more 
complex, emotional and intimate than other types of business relationships in 
which families are excluded from the mix.

Corporate executives said that these “family activities” had once taken place 
between large corporations, but no longer do. They lamented that corporations 
today seem to separate business relationships and personal relationships “more 
and more,” according to one interviewee. Another corporate executive believed 
corporations decided that nonbusiness activities were not “an effective use of 
discretionary money” and were perhaps “distracting.” The sense of 
disappointment expressed by corporate executives suggests that corporate 
executives miss the intimate relationship-building events that were once 
encouraged by their large businesses. Such sentiment may be based on nostalgia 
for a time that may or may not have existed. Regardless, corporate executives 
describe SMEs as offering close interfirm relationships that they seem to enjoy.

Interfirm Economic Exchanges

The next part of the good matches model is the economic exchange, both the 
form of the transaction and the media of the transaction that facilitates the 
exchange. The corporate executives in this study typically work with other 
corporate executives when looking to make short-term routine transactions (such 
as the purchase of a large batch of refined chemicals) and seek out SMEs when 
pursuing short-term, non-routine transactions (like the purchase of a unique 
formulated chemical that requires prompt decision-making) and long-term 
strategic alliances (for the purpose of developing new technology or products in 
which predictions about outcomes are difficult to know at the deal’s inception). 
However, this is not simply a story of corporate executives using small niche 
companies for particularistic purchases. It is the match between the kind of 
relationships, the type of transaction, and the media of exchange that serves to 
reaffirm the relationship and helps constitute the relationship itself. Table 3 
provides additional sampling of the data beyond the quotes and stories in the 
paragraphs to follow. This table shows a consolidation of the initial codes into
these second-order themes which helped drive the use of Zelizer’s relational work model as well as the extension this study makes to it.

Table 3: Additional Quotes from Interviewees in the Expanded Good Matches Framework

<table>
<thead>
<tr>
<th>Transactions Between Corporate Executives and SME Executives</th>
<th>Transactions Between Two Corporate Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relational Ties</strong></td>
<td><strong>Transactions Between Two Corporate Executives</strong></td>
</tr>
<tr>
<td>• I mean, when you meet the kids [of the owner], you kinda want them to succeed too.</td>
<td>• I couldn't tell you the last time I went to a [corporate] dinner with someone's spouse.</td>
</tr>
<tr>
<td>• You really learn who these people are...what they're like as a father, you know, family man...so you can relate to them on that level.</td>
<td>• These big conglomerates have such cost-cutting initiatives that working for a big conglomerate is less personal, more cutthroat, certainly less relationship.</td>
</tr>
<tr>
<td><strong>Channels of Communication</strong></td>
<td><strong>Channels of Communication</strong></td>
</tr>
<tr>
<td>• [Small business are] easier to deal with because there's only two or three people, in the end, making all the decisions...[so] you can talk to them rather quickly.</td>
<td>• ...it’s ‘What did you do for me today?’ ...It’s like, ‘You did it for somebody else, not for me.’ ” I mean, I’ve done business with the company for 10 years and this is the shit I hear.</td>
</tr>
<tr>
<td>• Somebody had power in that company, and you knew who had the power in that company, ultimately.</td>
<td>• It was just easier to negotiate on price and delivery details...anything involving more discussion and with more people and more time...we preferred to leave the messier negotiations to the...small [business] guys.</td>
</tr>
<tr>
<td><strong>Differentiated Transactions</strong></td>
<td><strong>Differentiated Transactions</strong></td>
</tr>
<tr>
<td>• Perhaps we'd make a deal where he was supposed to give me one product in exchange for work we would do...We could be flexible with that.</td>
<td>• It's all formal and straight forward...if a big company can save a dime, they'll drop you in a heart beat.</td>
</tr>
<tr>
<td>• You'd be much less reserved and float ideas you have with them [small firms]...there's just not many people you'd want to do that with at a large company. I mean, they're more interested in making the sale now.</td>
<td>• [T]he bigger companies, if you wanted something special...they don’t know how to help you.</td>
</tr>
<tr>
<td><strong>Transacting Media</strong></td>
<td><strong>Transacting Media</strong></td>
</tr>
<tr>
<td>• When you know some of these guys [at small businesses] like I know 'em, you're not going to screw 'em.</td>
<td>• It’s a straight business transaction with them [corporate executive]...[S]omething that’s completely depersonalized. And you know that.</td>
</tr>
<tr>
<td>• You talk on a more personal level...you worry less about contracts because you know who you're talking to.</td>
<td>• They know their own small world and not chemicals, so they’d write up a contract and charge you an arm and a leg...</td>
</tr>
</tbody>
</table>
Routine and Non-Routine Short-Term Transactions

Executives said they would primarily go to SMEs for non-routine transactions because speed of decision making and trust between exchange partners facilitate time-sensitive transactions. These types of transactions may include the need for a quick formulation of an ingredient required for an in-demand product (such as a Halloween candy) or several small, distinct trial formulations for a product under development (like a new anti-wrinkle lotion with the right “creaminess”).

In one interesting example, a corporate executive recalled a time when several truckloads of a chemical were found to be imperfect and could no longer be shipped to a finished-product manufacturer for its initial purpose. The batch was remade to fulfill the order, but the manufacturer still had the imperfect chemical. This executive called a small distributor and was able to discuss possible uses for the imperfect batch. The executive said that going to a large corporation would require convincing,

...a dozen people before you get an answer. You’d field a ton of phone calls and it would take forever. Plus, the decision-makers at these companies are MBA-types that don’t know these products inside-out, so they’re not familiar with what you can do with a product that’s not perfect.

After a few discussions and a discounted price, the SME executive agreed to purchase the product. Quick access to top decision makers that this corporate executive knew well, as well as access to those with the technical knowledge to inform executives about the potential usefulness of a product were key to creating this good match.

What is also significant about this transaction is the form of media. This executive said that no formal contract was written for the exchanges. Many of the executives provided accounts of business deals that were made by verbal agreement or “by handshake,” as executives repeatedly described it. In these accounts, contracts were written up because, “eventually you had to have something in writing” as one executive explained. However, written contracts were crafted long after the deal was made and interfirm activities were already underway. Executives noted that agreements made without written contracts were not requested by either party, but as one executive said, “we had made a deal and he knew it.” This sort of deal cannot simply be explained according to the governance of social network connections and embeddedness. We must
consider the media of transaction and the sentiment imbued in that media of exchange. An informal verbal agreement enabled this good match because a quick transaction was necessary and the SME and corporate executives have formed close bonds, structured on their shared understanding that a verbal agreement, as a media of exchange, was all that was necessary to secure the deal, and reinforce their relationship.

**Long-Term Strategic Alliances**

In discussing the chemical industry, a SME executive noted that, “innovation was the theme of small businesses.” Because of their size, SMEs typically profit by bringing new products to the market, in part, because they cannot compete with large manufacturers for the same business. According to one corporate executive, some corporate firms develop new products through the use of “fou fou dust” (described as product add-ins that “any business can do easily”). However, this executive claimed it was small businesses that were “true innovators and developed brand new products to bring to the market.”

Certainly research and development departments of large companies create new products for the market, and must do so to stay competitive. Innovation however, is a time-intensive endeavor and one that may require investment of resources for years before a return on investment is seen. The flexibility executives described SMEs as having made them “great places to do work with on innovative things,” as a corporate executive explained. Research supports such claims finding that SMEs, especially those that have multiple family members involved, have a long-term business orientation (Cassia et al., 2012). This outlook increases the likelihood of SMEs working on time consuming innovative research. Corporate executives emphasized the importance of small businesses’ collaborative alliances without written contracts. Since outcomes could not be defined at the onset of a project, corporate executives said small businesses were comfortable with “taking time to figure stuff out” as one executive described it. In turn, corporate executives expressed their acceptance of flexible time lines. One corporate executive gave the following example of working with a SME:

*I go down to visit [the company] a few times a year to see what sort of new stuff they’re up to...And we always talk about new ideas. Sometimes we’ll....buy him some new equipment ’s interested in...He’s got some great ideas...some of them don’t work, but some do. [Laughs] And when comes up with something interesting, I fly down to see what he’s got.*
The willingness of this corporate executive to invest in new equipment for a SME with uncertain outcomes stands as a unique economic transaction. The transacting media is the informal agreement that this SME owner will contact the corporate executive, rather than any other executive, when progress is made with the new equipment—reinforcing the shared meaning of the relationship.

Several corporate executives pursuing interfirm business innovation believed that large corporations’ inflexibility makes the development of long-term innovation deals difficult. As one corporate executive interviewed said: “These [small] companies were in a way easier to deal with because you could talk to them about doing things and trying new things; whereas big companies were like: ‘This is the way we do stuff and this is the way we’re always going to do stuff’ [pounding fist for emphasis].” Moreover, other executives described milestones that corporate executives would try including in contracts created for long-term alliances that “were just unreasonable. I mean, they made no sense.” Several executives said that these sorts of deals often involved “lots of lawyer feedback and…contract revisions” in order for such alliances to even begin. These limitations, in turn, led to matches between two corporate executives that would not work in a SME and corporate executive relationship.

**Interfirm Channels of Communication**

The routine and non-routine transactions and media of exchange executives spoke about were enabled through differentiated communication flows in SMEs and corporate businesses. Executives suggested that these differences played a significant role in enabling good matches. Thus, this study expands Zelizer’s model of relational ties, distinctive transactions and transacting media in its application to interfirm exchanges to include channels of communication. See Figure 1 for the complete extended model.

Among small firms, interviewees claim that executives have flexible, informal flows of communication that transcend organizational roles and structural hierarchies. Corporate executives often discussed small businesses as “inherently less structured than other businesses” as one executive put it, with loose, and “much more fluid decision-making processes” as another explained. One corporate executive suggested how informal business structures in SMEs facilitate certain transactions:
There are deals that these small businesses are willing to make that a corporate entity never will because there are many more rules and structures that go along at the corporate level... It seems to be more of an informal structure, and if they wanted to get something done, it’s not like you had a commission here and a commission there, and a this and a that.

Other corporate executives reiterated the ease of obtaining quick decisions from SME firms. One executive noted: “[I]n some ways [SMEs] are more flexible. You could do things faster.” And another claimed that “there was a much more casual nature to doing business. They were much more flexible. Once you knew what you were getting into, it made business easier.” The flow of information executives spoke about in SME decision-making influenced the way corporate executives approached SMEs. But because these corporate executives already established strong, emotional relationships with SME executives, they felt confident that these transactions “were going to go through smoothly” because “you knew them and they knew you,” as one executive noted.

Figure 2: Good Matches in Interfirm Exchanges

<table>
<thead>
<tr>
<th>Development of Relational Ties</th>
<th>Channels of Communication</th>
<th>Differentiated Transaction</th>
<th>Transacting Media</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequent interactions with executives’ families result in business relationships with high affect</td>
<td>Loose organizational structures and roles result in relaxed communication flows within and between organizations</td>
<td>Non-routine long-term strategic alliances</td>
<td>Informal, verbal agreements</td>
</tr>
<tr>
<td>Infrequent interactions and relations only between executives result in business relationships focused on instrumentality</td>
<td>Clearly defined organizational structures and roles result in rigid paths of communication within and between organizations</td>
<td>Routine short-term transactions</td>
<td>Non-routine short-term transactions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Formal, written contracts</td>
</tr>
</tbody>
</table>
DISCUSSION

This study looked at the ways executives from SMEs and large corporate businesses discuss how they conduct interfirm exchanges. The findings demonstrate that good matches, a relational framework that integrates the matching of appropriate types of transactions with transacting media that reinforce relational meanings and constitute the relationship itself, can provide a robust explanation for interfirm exchanges. Previous research on interorganizational exchanges has taken an economic or network perspective, focusing on governance mechanisms used to prevent opportunistic behavior or on the amount or types of social ties that determine whether exchanges are governed through formal contracts or embedded social pressures. In the relational work model, by reinterpreting governance mechanisms as media of exchange (either formal written contracts or “a handshake” [Adler, 2001]), the decision for executives to select one transacting media over the other is not predicated upon the asset type (Hoetker & Mellewigt, 2009), the concern for a governance mechanism to hedge against opportunism (Poppo & Zenger, 2002), nor tie strength per se (Jack, 2005), but on the type of relationship exchange partners have with one another.

Patterns of interfirm exchanges, described using the expanded relational model depicted in Figure 2, contribute to an understanding of the way SME executives can develop unique economic exchange matches with corporate executives. Interfirm relationships between SME and corporate executives develop at industry events like trade shows, and SME-sponsored activities like family barbecues, tickets to local sports events, and business dinners that include executives’ families. Relationships with high affect form when executives because closely acquainted with other executives’ families through repeated interactions. These close ties result in unique kinds of interfirm business transactions to match the level of relational affect. Loosely structured intra- and inter-firm channels of communication enable uniquely matched exchanges between SME and corporate executives, including non-routine, short-term, rapid production or purchase of products that necessitate quick decision-making, as well as long-term innovation strategic alliances. These economic exchanges are facilitated by appropriate media of exchange—typically informal verbal agreements—that reinforce the meaning of highly affective relationships based on interpersonal obligation and trust. Executives interviewed said that more formal quid pro quo exchanges take place between corporate executives because
their relationships typically remain instrumental because of corporate policies that inhibit opportunities for the development of closer ties. Corporate businesses have more formally structured channels of communication, and the resulting transactions are short-term, routine and facilitated by written contracts. By making the focus of analysis economic exchanges rather than the firms themselves, this study demonstrates how meaning-making through ongoing economic transactions can help us better understand the development and ongoing efforts needed to sustain interfirm relationships and produce appropriate exchange matches.

Qualitative methodology was used to develop this relational model of good matches in interfirm exchanges. Scholars have argued for the importance of qualitative research in SME studies because existing frameworks developed from long-standing research on large firm may not be translatable to smaller firms (Hill and McGowan 1999). The value of qualitative research lies in the researcher’s task of “doing description” (Van Maanen, 1979) by providing insight through rich detail of participants’ lives (Smith & McElwee, 2015) and producing a model to generate hypotheses for further testing (Larson, 1992). To accomplish these two tasks this study provided robust details of respondents’ interfirm exchanges. Based on these results this study extends Zelizer’s relational work model by including the construct of channels of communication that enables distinct economic exchanges to take place.

**CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH DIRECTIONS**

The development of relational ties in this model calls attention to the need to analyze the contexts that provide (or inhibit) opportunities for interactions between executives from different businesses. The corporate executives interviewed in this study repeatedly described the significance of how they developed and reaffirmed their relationships with small business executives and their families. They frequently mentioned opportunities for face-to-face encounters with SME executives and their families, the facilitated building relationships with high affect. However, these sorts of relationships should be able to be formed between two corporate executives. If corporations provide opportunities for their executives to build more intimate interfirm relationships with other corporate executives, it would follow that non-routine exchanges may take place, secured by informal exchange media. Thus, it may be suggested that
corporations consider reversing the trend of viewing business and emotions as separate worlds (Zelizer, 2009) and instead recognize the social nature of all economic interactions. A relational perspective should enable corporate executives to develop organizational policies and implement practices that account for appropriate social ties between executives. Opportunities for closer relations may create more opportunities for interfirm exchanges between corporate executives.

The findings of this study also suggest that SME relationship building with high affect based on the introduction and ongoing interactions of multiple family members stands as a competitive advantage for SMEs. Thus it would stand that SME executives should invest in fulfilling corporate executives’ relational expectations by fostering strong connects. However, this emphasis on close ties should not be developed to the neglect of other critical SME investments. For example, SMEs have been shown to provide less financial support for training their employees and rate the level of importance of employee skill building lower than corporate firms (de Lema & Duréndez 2007). Although SME executives may benefit from spending resources on developing emotionally laden relationships with corporate executives, resource allocation to ongoing training and professionalization of their employees is also critical for SME success. Employee skill development may in fact support efforts to build important relationships with and make deals with corporate executives, as SME executives in this study demonstrated with their knowledge of chemistry.

It unclear what happens in situations between executives that are unmarried or do not have children. Only one executive interviewed in this study was single and without children. This corporate executive had, “no problem being the third wheel” at dinners and other events with SME executives, and everyone knew the executive was a “lone ranger.” This corporate executive enjoyed meeting “all the different family members” SME executives introduced. It would likely be the case that SME executives without families could develop similar types of relationships SME executives with families foster by interacting with families of corporate executives. It does seem to be the case, based on the interviewees, that executives’ relationship with extended family is key to building ties with high affect. Just as this self-described “long ranger” corporate executive did, unmarried SME executives simply need to extend their time to get to know the families of corporate executives they work with. However, additional research studying a larger variety of executives would provide a more robust
understanding of the similarities and differences that may exist between executives with different nuclear and extended family situations.

Although a small number of interviewees and a focus on a particular industry may suggest that the findings and resultant model has limited generalizability, prior research suggests that the expanded relational work framework for interorganizational exchange is applicable to different industries and a variety of organizational structures. Zelizer’s concept of good matches itself was developed through historical analyses in various industries and across multiple contexts (including the rise of the insurance industry [1978] and the changing meaning and social value of children [1985]). Moreover, excerpts of interviews from business leaders in other qualitative research investigating interfirm relationships, notably by Larson (1992) and Uzzi (1996), are remarkably similar to accounts of relational exchanges to those made by interviewees in this study. Thus, the expanded relational work model developed in this study, may be an appropriate perspective to evaluate the full breadth of interfirm exchange partners whose businesses vary on many different dimensions, including size, ownership structure, etc.

The research presented in this study identifies unique positive benefits developing from SME and corporate executive relationships, however the results are limited because interviewees did not discuss interfirm exchange failures, although these clearly exist (Larson, 1992). It may be the case that SMEs that have very formal, highly structured forms of intrafirm communication fail to make good matches with corporate executives, even if highly intimate interfirm relationships exist. There may also be situations in which SME and corporate executives may fail to match either the kind of transaction or the type of exchange media one party deems appropriate for the relationship. The resulting poor match would result in a relationship violation and perhaps a failure to fulfill the transaction. If that violation was not corrected, the relationship may be forever altered. In addition, it is likely that SMEs develop routine, short-term exchanges with large corporations, even though interviewees did not speak about these transactions. Studies that are able to more closely investigate the processes of corporate executives and SMEs deal-making, both the flows of communication and the decision to select for or against certain economic exchanges, will continue to help researchers and organizations better understand how interfirm relationships function and perhaps continue to perfect the proposed model.
Despite the prevalence of interfirm collaborations, alliances often fail to create their anticipated benefits (Kale, Dyer, & Singh, 2002). Both the economist-based governance mechanism and the sociological-based relational approaches emphasize the importance of good matches broadly defined. Perhaps a combination of these perspectives, with quantitative and qualitative data that allows researchers to investigate a variety of interfirm exchanges both up close and from a macro perspective, will shed light on why certain exchanges are more successful than others. Ideally, such research data would comprise of longitudinal information about interfirm deals to allow researchers to tease out how different matching processes, interfirm matching failures, and relational repair, contribute to effective interorganizational work outcomes.

REFERENCES


STUDENTS’ ASSESSMENT OF EXPERIENTIAL LEARNING IN AN ENTREPRENEURSHIP CURRICULUM: EXPECTATIONS VERSUS OUTCOMES

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ABSTRACT

Experiential learning has become a popular concept in curriculum design and delivery. There is a need to develop science-based assessment to validate learning outcomes and effectiveness when applying experiential learning in teaching entrepreneurship. This article shares one of the most successful experiential learning activities in a non-conventional entrepreneurship curriculum in a 4-year university in the United States. Each student received $1 to work with 8-10 individuals in a team to design, plan, operate, and manage a small venture on campus in one semester. While all proceeds must donate to charity, each individual went through the same process of new venture creation and professional development as in real life. Through a serious of assessment, students revealed that their expectations of the course was very different from their reality in finance, business process, entrepreneurship concepts, team work, communication, and transformation of failure. This article provides tools, strategies, and instruments for educators and scholars to further test the integrated nature of experiential learning in entrepreneurship education.

INTRODUCTION

Experiential learning and action-oriented learning programs have become increasingly popular in recent year designed and implemented by educators across disciplines. Most of the educators/teachers went through traditional education models primarily focused on reading, memorizing, and regurgitating information through examinations. We agree that there are significant values and benefits to support the traditional education models that offer fundamental
training for variety of learners at different learning stages to become familiar with the basic knowledge across disciplines. Unfortunately memorization and regurgitation only offer partial solutions for learning, and many students become accustomed in “learning from books” not knowing “how to apply knowledge and skills in real life”. Well-balanced and systematically designed experiential learning curriculum could fill the gaps between “knowledge” and “application”. A robust experiential learning program would support learners in a synchronized experience to “learn what they need to learn”, “learn how to learn”, and “learn how to apply knowledge and skills in real life” at the same time. We all need to be more cautious when thinking about introducing experiential learning to our teaching assignments, though. Not all learners are willing to or are able to comprehend the demanding nature of experiential learning in terms of interacting with people and issues beyond reading textbooks. One question has never been fully discussed in literature – what types of learners prefer experiential learning format, and how do we effectively assess learning outcomes?

This article provides an example from one of the largest experiential learning courses established in a non-conventional entrepreneurship program at one university in the United States. Many scholars have illustrated the importance of incorporating experiential learning in supporting entrepreneurship education (Chrisman and McMullan, 2004; Mian, 1996). Two of the most common examples of applying experiential learning in entrepreneurship education are the university-hosted incubator programs (Pokalo, 2011; Hisrich and Smilor, 1988) and the Small Business Institute consulting programs (SBI, 2016). The incubators provide adequate opportunities for students, educators, and stakeholders to work together to develop entrepreneurs beyond the conventional learning environment, while also broaden missions of educational institutions in addressing local/regional needs with respect to economic development and technology transfer (Mian, 1996). The Small Business Institute consulting programs directly connect student teams with local entrepreneurs who are seeking information to create new ventures and/or expand/grow existing ventures. Unfortunately not all universities and colleges have sufficient resources to establish, build, and operate micro-enterprise incubators on campus or off campus. Also most of the Small Business Institute programs have been limited to business schools.

This article shares a story about a successful experiential learning curriculum directly embedded in a non-conventional entrepreneurship program in a university in the United States. This article contributes to theoretical and practical development of entrepreneurship education. First, we have designed and implemented an effective assessment instrument as well as a strategic evaluation framework that could be broadly applied in other institutions. Second, we have collected data from one semester to demonstrate a systematic approach to (1) gather information from each student regarding their demographic and
entrepreneurial characteristics, (2) understand how and if experiential learning influences each student’s learning expectations and learning outcomes, and (3) explore outcomes and effectiveness of experiential learning curriculum for teachers to create and implement new concepts that will simultaneous support entrepreneurship education and practices. Finally, we link students’ reflections of learning expectations and outcomes to reveal and stimulate new ideas and new opportunities to adopt experiential learning in entrepreneurship education across disciplines.

LITERATURE REVIEW OF EXPERIENTIAL LEARNING AND ENTREPRENEURSHIP

There is a growing trend for educators to recognize the power of transforming knowledge to applications. More scholars advocate that entrepreneurship education requires practice. It would be essential to guide students to learn the methods as well as contents. “Learning a method, in our opinion, is often more important than learning specific content. In an ever-changing world, we need to teach methods that stand the test of dramatic changes in content and context. At the end of the day, perhaps we do not teach entrepreneurship the discipline. Perhaps we teach a method to navigate the discipline.” (Neck and Greene, 2011).

The most challenging yet rewarding aspect of creating experiential learning components in any program is about establishing appropriate teaching style and pedagogy. We need to develop educators who could evolve from traditional learning and teaching environment, and who would be comfortable and competent to introduce a teaching style that is creative, dynamic, action-oriented, and supportive of opportunities for problem-solving and peer evaluation (Jones and English, 2004).

Student-operated businesses have been historically established and operated outside the curriculum or outside the education institutions (Daly, 2001). Some of these student-operated businesses receive institutional support and supervision. In recent years, more of these student-operated businesses have emerged within the curriculum as a tool for applying knowledge and providing service to the greater community through service-learning (Daly, 2001). Many studies have reported the benefits of participation in student-operated businesses, when well-guided and implemented, such as students’ direct involvement and contribution to decision-making process, building stronger psychological ownership in learning process, enhancing self-efficacy, and nurturing higher level of confidence for students (Daly, 2001; Wood, 2003). Students who participate in business operation simulations also achieve higher cultural
awareness, leadership, empathy, compassion, pro-action, interpersonal and team communication, and community engagement (Hernandez & Newman, 2006; Stoddard & Risma, 2011; Wee, Yeo, Tay, Lee, & Koh, 2010). The instructors who offer students an experience in business operations also benefit from the real-world challenges by offering assignments that are more relevant to practical business environment and issues (Foster, 2004). Studies showed that students were able to complete higher quality work, became more dedicated to their assigned obligations, and were more satisfied in learning (Daly, 2001; Desplaces, Wergeles, and McGuigam, 2009; Foster, 2004; Grossman, Patel, and Drinkwater, 2010).

The Small Business Institute was started at Texas Tech University by a professor who saw the concept as a way to give his students a more direct experiential learning exercise in the early 70’s. The idea was to provide small business borrowers management assistance with students under faculty supervision. The pilot program was funded by the U.S. Small Business Administration (SBA). As a result of the success of that program the SBA decided to expand the program to other schools as the Small Business Institute to supplement its management and technical assistant to borrowers. Shortly after that, a group of faculty directing programs met with SBA personnel and formed the Small Business Institute Directors Association. The program was one of the first experiential learning organizations in the country. “More than 500 universities and colleges have participated during the 25 year history of SBI, with approximately 350 schools participating in 1996; 220 in 1997; 230 in 1998; 240 in 1999. Approximately 3,600 students participated in the first full year of the SBI Program (1973) with more than 407,625 students benefitting from this learning experience through 1995.” (SBI, 2016)

There is very limited research or empirical studies to analyze the impact of experiential learning incorporated in entrepreneurship education. Beyond student-operated businesses and some case studies, much literature focuses on student teams working with entrepreneurs to solve problems, design/create new products/services, or some types of students-entrepreneur collaboration (Cooper, Colin, and Gordon, 2004; Rae, 2012). This article reports a semester-long process to deliver and monitor an experiential learning curriculum that is directly embedded in an entrepreneurship course through new venture creation exercises. A few questions we would like to explore include:

- Do students really know if they are or if they have the potential to become successful entrepreneurs?
- Do students really learn from experiential exercises, and what do they learn in the process?
- From each individual student’s point-of-view, what is the difference between expectations and reality in an integrated experiential learning entrepreneurship curriculum?
RESEARCH METHOD

Course Description

A major degree and a minor degree in Community Entrepreneurship were designed and created in 2004 in the College of Agriculture and Life Sciences in a 4-year university in the United States. This is one of the first entrepreneurship programs established in the United States that offers terminal degrees of entrepreneurship outside business schools. A course, Introduction to Community Entrepreneurship, was created in 2005 to offer an intro-level course associated with Community Entrepreneurship degree. This course offers an integrated learning opportunity for students to explore entrepreneurship theory, entrepreneurial environments, entrepreneurial characteristics, and entrepreneurial opportunities. This course is one of the first entrepreneurship courses in the United States to truly incorporate experiential learning and fundamental knowledge of entrepreneurship through an innovative curriculum – Dollar Enterprise (Liang, 2015).

Dollar Enterprise is a nationally recognized award-winning curriculum and is very different from student-operated businesses. Dollar Enterprise offers students a dynamic experience of learning in one semester, from team building to new venture creation, through a well-guided cohesive and collaborative framework. Dollar Enterprise helps aspiring and nascent entrepreneurs learn more about being entrepreneurial, decision making, and why entrepreneurs fail. This course is offered every semester (twice a year) with 130-150 students in each semester since 2005. There is no restriction for any student in any major or any year to enroll. The purpose is to expose all students to the concepts and practices of entrepreneurship and community engagement. The instructor gives each student $1 and 8-10 students to form a team with $8-$10 seed money, and no personal cash investment is allowed. The instructor gathers students’ profile information on the first day of class – age, family background, personal interests and hobbies, work style, communication style, talents and special skills, preferred types of products to create, part-time jobs, school class schedule, extracurricular commitments, and preferred positions in a team. The instructor organizes team members based on personal inputs, and allows one-time switch if necessary. Once team members are confirmed, no one will be allowed to switch or to exit.

Here is a summary of the planning, execution, and evaluation of Dollar Enterprise:

- Instructor applies for location permit, food permit, and event announcement 8 months prior to the beginning of a new semester. A series of lectures and training workshops introduce course contents in the first 4-6 weeks of each
semester. Course contents include: brainstorm ideas, team building and structure, product design, workload assignment, communication strategies, resources and opportunities, business plan and business model, networking and competition, market and marketing, financial analysis, daily operations and quality control, and internal assessment/peer reviews.

Each team designs and conducts workshops to prepare for business plans, products, and market research. Arts and craft teams must use recyclable materials to create new products. Food teams must follow Campus Dining Safety using locally produced ingredients.

Each team runs their business for 4 weeks on campus (at least 3 hours every day from Monday through Friday, 8am-5pm) during the semester in various pre-reserved outdoor locations only. No school resources such as rooms, tables and chairs are utilized. Each team is required to identify a charity organization to which it will donate all proceeds, and to provide additional service-learning hours for the charity to create new programs, renovate existing programs, or offer other types of support.

Each team conducts daily/weekly team evaluations throughout the semester prior to, during, and after Dollar Enterprise activities by Teaching Assistants, secret shoppers/judges, peer reviews across teams, and community partners. Evaluation categories include quality of team work, planning and operation procedures, professionalism, effectiveness in communication, customer service, and innovation. At the end of the 4-week business activity, each team concludes with a business report, financial report, self-assessment, and final team member assessment.

Since 2005, over 4,000 students have participated in Dollar Enterprise and generated over $50,000 for more than 300 charity organizations. Student teams have contributed over 30,000 service learning hours. More than 25 organizations have donated ingredients/materials to support student teams in the past 11 years.

**Survey and Data Collection**

The instructor has created a set of evaluation instruments to test and evaluate learning outcomes since 2005. The instruments have been tested and modified periodically following literature frameworks and practical applications (Scott-Ladd and Chan, 2008; Mason and Griffin, 2003; Rut Ulloa and Adams, 2004; Hoegi and Gemuenden, 2001; McCorkle, Reardon, Alexander, et al. 1999; Aggarwal and O’Brien, 2008; Locke and Latham, 1990). There are 4 sets of survey instruments for each student to respond to in each semester. The first set of survey instrument is distributed within the first week of each semester as soon as classes begin. The questions focus on demographic, family situation and influence, and other personal-oriented questions such as interests and preferences...
of new products for Dollar Enterprise. The second set of survey instrument includes questions related to entrepreneurial characteristics focused on optimism, realism, decision making, independence, and risks (Liang and Dunn, 2014; Liang and Dunn, 2012). The second survey instrument is distributed in class right after students complete Dollar Enterprise activities. The third survey instrument asks each student to respond to “what they expected to learn before they participate in Dollar Enterprise” and “what they actually learned after participating in Dollar Enterprise”. The third survey is distributed in class near the end of each semester, however the expectations of learning was also distributed in the first week of each semester to validate answers later in the semester. Finally the fourth set of survey instrument requires each student to conduct weekly evaluation on teamwork and peer evaluation.

This article only reports findings based on one semester’s student demographic information, entrepreneurial characteristics assessment, and overall reflections on expectations and outcomes associated with various aspects of Dollar Enterprise – business planning, new venture creation procedures, finance, marketing, product, teamwork, communication, and general entrepreneurship concepts. The purpose of this article is to share information and research instruments for scholars to use in their own research.

**Students Profile**

In this particular semester, there were 110 students enrolled in the Introduction to Community Entrepreneurship course, and participated in Dollar Enterprise activities. For information purposes, there were seven craft teams - 3 craft teams each had 9 students, two craft teams each had 11 members, and two craft teams each had 10 members. There were also four food teams – one food team had 9 members, one food team had 11 members, and 2 food teams with 10 members each. We chose to analyze individuals to avoid assessment biases related to the vagaries of team dynamics. We want to focus on the overall class reflections based on self-evaluation of each individual in the same class in the same semester, regardless which team each student was assigned to.

**Table 1. Demographic Information of Students (Total Number of Students in Class = 110)**

<table>
<thead>
<tr>
<th>Gender</th>
<th>No of Responses</th>
<th>% of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>59</td>
<td>54.1</td>
</tr>
<tr>
<td>Male</td>
<td>50</td>
<td>45.9</td>
</tr>
<tr>
<td>Major by College</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Agriculture</td>
<td>78</td>
<td>70.9</td>
</tr>
<tr>
<td>Arts and Sciences</td>
<td>19</td>
<td>17.3</td>
</tr>
<tr>
<td>Business</td>
<td>5</td>
<td>4.5</td>
</tr>
<tr>
<td>Engineering/Math/Computer Sciences</td>
<td>3</td>
<td>2.7</td>
</tr>
<tr>
<td>Others</td>
<td>5</td>
<td>4.5</td>
</tr>
<tr>
<td>Year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continued Education</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td>First Year</td>
<td>3</td>
<td>2.7</td>
</tr>
<tr>
<td>Sophomore</td>
<td>54</td>
<td>49.1</td>
</tr>
<tr>
<td>Junior</td>
<td>40</td>
<td>36.4</td>
</tr>
<tr>
<td>Senior</td>
<td>12</td>
<td>10.9</td>
</tr>
<tr>
<td>Family owns/owned business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>50</td>
<td>52.1</td>
</tr>
<tr>
<td>No</td>
<td>46</td>
<td>47.9</td>
</tr>
<tr>
<td>Family has influence on personal interests in entrepreneurship</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>57</td>
<td>59.4</td>
</tr>
<tr>
<td>No</td>
<td>39</td>
<td>40.6</td>
</tr>
</tbody>
</table>

There were about the same proportion of females and males. Eighty percent of students took this course to fulfill major or minor requirements (this course is required by more than 6 majors and minors across different disciplines in this university). A majority students came from College of Agriculture, with some from Business School, Engineering/Math/Computer Science, and others. Most of enrolled students were sophomores and juniors. Many students came from family-owned business backgrounds, and many agreed that their family environment indeed influenced their own interests in entrepreneurship (Table 1).

**Students’ Self-Assessment of Entrepreneurship Characteristics**

The instructor asked each student to respond to a set of questions related to commonly identified entrepreneurial characteristics in literature. A majority students agreed (including agreed a lot and agreed) that they were most likely to be optimistic and realistic in assessing their own perceptions to each question. Interestingly many students were not quite sure about failure, or being confident with their own decisions. This class seems to be more on the realistic side of
assessment. The instructor attempted to distribute this set of questions in various time periods within a semester – in the beginning of the semester, in the middle of the semester, and near the end of the semester. Interestingly there were no significant differences in each student’s responses to all questions. It is possible that each individual is very sure and certain about her/his choices regardless when we ask them these questions. Dollar Enterprise could be a very time consuming process. It seems that participation in Dollar Enterprise does not significantly influence individual’s own perception of characteristics. (Table 2)

Table 2. Self-Assessment of Entrepreneurial Characteristics – Optimism, Realism, General

<table>
<thead>
<tr>
<th></th>
<th>Agree a lot</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Disagree a lot</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am always optimistic about my future</td>
<td>26</td>
<td>41</td>
<td>22</td>
<td>5</td>
<td>0</td>
<td>94</td>
</tr>
<tr>
<td>I am not afraid of failure</td>
<td>17</td>
<td>23</td>
<td>25</td>
<td>22</td>
<td>7</td>
<td>94</td>
</tr>
<tr>
<td>I am creative and innovative</td>
<td>34</td>
<td>44</td>
<td>13</td>
<td>3</td>
<td>0</td>
<td>94</td>
</tr>
<tr>
<td>I am always confident about my decisions</td>
<td>16</td>
<td>32</td>
<td>39</td>
<td>6</td>
<td>1</td>
<td>94</td>
</tr>
<tr>
<td>I usually look before I leap</td>
<td>20</td>
<td>37</td>
<td>25</td>
<td>10</td>
<td>2</td>
<td>94</td>
</tr>
<tr>
<td>I am willing to take reasonable risks</td>
<td>26</td>
<td>50</td>
<td>13</td>
<td>2</td>
<td>3</td>
<td>94</td>
</tr>
<tr>
<td>When planning, I usually consider both negative and positive</td>
<td>39</td>
<td>34</td>
<td>16</td>
<td>3</td>
<td>2</td>
<td>94</td>
</tr>
<tr>
<td>positive outcomes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>I always seek new opportunities</td>
<td>24</td>
<td>39</td>
<td>26</td>
<td>3</td>
<td>2</td>
<td>94</td>
</tr>
<tr>
<td>I usually try to find as much</td>
<td>22</td>
<td>41</td>
<td>22</td>
<td>7</td>
<td>2</td>
<td>94</td>
</tr>
<tr>
<td>information as I can before I</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>decide what to do</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I try to be reasonably certain</td>
<td>28</td>
<td>44</td>
<td>19</td>
<td>1</td>
<td>2</td>
<td>94</td>
</tr>
<tr>
<td>about the situation I face when</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>starting an important activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I enjoy working with people in</td>
<td>33</td>
<td>34</td>
<td>21</td>
<td>5</td>
<td>1</td>
<td>94</td>
</tr>
<tr>
<td>general</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall I expect more good</td>
<td>40</td>
<td>34</td>
<td>13</td>
<td>5</td>
<td>2</td>
<td>94</td>
</tr>
<tr>
<td>things to happen to me</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Did Learning Expectations Match with Learning Outcomes?**

Some of the most commonly cited reasons to take this introductory course is to learn about entrepreneurship and business planning. The instructor broke down more specific questions for each student to reflect on “what I expected to learn prior to participating in Dollar Enterprise” and “what I actually learned after participating in Dollar Enterprise”.

A majority students expected to learn about how to write a business plan, how to start their own business, and how to operate a business (Table 3). Many students actually learned about writing a business plan, even though they did not
expect to. A few students did not learn about starting and operating their own business, while they expected to learn these concepts and practices. This might be a reflection of personal dissatisfaction dealing with chaotic situation of each team’s coordination and conflicts.

Table 3. Self-Assessment of Learning on Overall Business Practice – Expected to Learn versus Actually Learned

<table>
<thead>
<tr>
<th>Writing a Business Plan</th>
<th>Write business plan – reality</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>yes</td>
<td>Count</td>
</tr>
<tr>
<td>Write business plan – expectation</td>
<td>no</td>
<td>4</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>yes</td>
<td>6</td>
<td>46</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Start Own Business</th>
<th>Start own business – reality</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>yes</td>
<td>Count</td>
</tr>
<tr>
<td>Start own business – expectation</td>
<td>no</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>yes</td>
<td>12</td>
<td>67</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How to Operate a Business</th>
<th>Operate business – reality</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>yes</td>
<td>Count</td>
</tr>
<tr>
<td>Operate business – expectation</td>
<td>no</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>yes</td>
<td>8</td>
<td>66</td>
</tr>
</tbody>
</table>

Note: ***Significant at 0.001, ** Significant at 0.01, * Significant at 0.1

Financial analysis was and has been one of the most challenging aspects in Dollar Enterprise. Each team accepts cash, check (made to the university title), and credit card. Each team has its own bank account directly attached to the university account. Each team has its own credit card machine/program, and it is a full-size wifi state-of-the-art commercial credit card system. Every morning one team member of each team must open the accounting system to get ready for their daily operation. When each team closes for business every day, a member must meet with university financial manager to settle all accounts. It was a nightmare if any member could not count money in their own account correctly,
which would significantly delay the process of all teams and the university banking system.

Not very many students expected to learn about financial analysis through Dollar Enterprise activities. However many indeed learned about finance from daily routine and making/correcting errors. Interestingly many students did not expect to learn about making new products, while a majority of the class learned how to make new products. There were 7 arts and crafts teams, and 4 food teams in this semester. The arts and crafts teams often face more challenges to seek alternatives utilizing recycled/reusable materials in making new products that customers would buy. Food teams have to deal with constraints and food safety regulations – no overnight food, no protein ingredients including hot dogs, only vegetarian or vegan categories allowed. Creativity and innovation become two key elements that each team must work with all team members to succeed.

There is no statistical significance in learning about decision making before and after participating in Dollar Enterprise. (Table 4)

Table 4. Self-Assessment of Learning on Specific Business Contents – Expected to Learn versus Actually Learned

<table>
<thead>
<tr>
<th>Financial analysis</th>
<th>Financial analysis – reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square test sig 0.296</td>
<td>No</td>
</tr>
<tr>
<td>Financial analysis – expectation</td>
<td>Count</td>
</tr>
<tr>
<td>% within Financial analysis - reality</td>
<td>60.0%</td>
</tr>
<tr>
<td>Yes</td>
<td>Count</td>
</tr>
<tr>
<td>% within Financial analysis - reality</td>
<td>40.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Decision Making</th>
<th>Decision making – reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square test sig 0.711</td>
<td>No</td>
</tr>
<tr>
<td>Decision making – expectation</td>
<td>no</td>
</tr>
<tr>
<td>% within Decision making - reality</td>
<td>55.2%</td>
</tr>
<tr>
<td>yes</td>
<td>Count</td>
</tr>
<tr>
<td>% within Decision making - reality</td>
<td>44.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Make New Products</th>
<th>Make new products – reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square test sig 0.000***</td>
<td>No</td>
</tr>
<tr>
<td>Make new products – expectation</td>
<td>no</td>
</tr>
<tr>
<td>% within Make new products - reality</td>
<td>84.6%</td>
</tr>
<tr>
<td>yes</td>
<td>Count</td>
</tr>
<tr>
<td>% within Make new products - reality</td>
<td>15.4%</td>
</tr>
</tbody>
</table>
Many educators use teamwork in different courses, and there are mixed reviews of teamwork in literature. Some emphasized the benefit of collaborative learning which could improve personal skills, while others argued about dysfunctional management and conflicts among team members which could hinder learning progress. In this one class, more than one-half of the students who did not expect to learn anything about teamwork, actually had positive learning experiences about teamwork and communication (Table 5). Industry reports often indicate employees lacking essential skills working with others – communication, negotiation, conflict resolution, and diplomacy just to name a few. Dollar Enterprise offers each team a real-life simulation in team building and collaboration through challenges and barriers. It is cumbersome to accommodate and coordinate 8-10 individuals with different ideas, values, priorities, preferences, interests, work ethic, family background, and personalities/characteristics. However most students were able to take advantage of this rare opportunity to learn from each other throughout the semester, and in this once-in-a-life-time new venture creation process. Not surprisingly many team members have become friends in their future career and developed solid partnership in more business/professional collaborations.

Table 5. Self-Assessment of Learning on Teamwork – Expected to Learn versus Actually Learned

<table>
<thead>
<tr>
<th>What Teamwork Is Like</th>
<th>What teamwork is like – reality</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square test sig 0.000***</td>
<td>Count</td>
<td>14</td>
<td>25</td>
</tr>
<tr>
<td>What teamwork is like – expectation</td>
<td>% within What teamwork is like – reality</td>
<td>77.8%</td>
<td>33.8%</td>
</tr>
<tr>
<td>yes</td>
<td>Count</td>
<td>4</td>
<td>49</td>
</tr>
<tr>
<td></td>
<td>% within What teamwork is like – reality</td>
<td>22.2%</td>
<td>66.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effective Teamwork</th>
<th>Effective teamwork – reality</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square test sig 0.143</td>
<td>Count</td>
<td>11</td>
<td>24</td>
</tr>
<tr>
<td>Effective teamwork – expectation</td>
<td>% within Effective teamwork - reality</td>
<td>44.0%</td>
<td>35.8%</td>
</tr>
<tr>
<td>yes</td>
<td>Count</td>
<td>14</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>% within Effective teamwork - reality</td>
<td>56.0%</td>
<td>64.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Communication Strategies</th>
<th>Communication – reality</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square test sig 0.000***</td>
<td>Count</td>
<td>15</td>
<td>30</td>
</tr>
</tbody>
</table>
Failure is a commonly cited factor that transforms entrepreneurs (Liang and Dunn, 2012). A statistically significant proportion of students admitted that they actually learned about and from failure and how to transform failure into successful opportunities (Table 6). The most unique feature of Dollar Enterprise is to offer all students a safe, protected, and trusting environment to fail. It is extremely difficult to establish a curriculum that aims to simulate real-life entrepreneurial experiences without helping students to learn about “failure”. Failure comes from all phases in the new venture creation path – start up, growth, or exit. Failure is a foundation of learning, and true learning occurs only after tasting failure. Traditional college students often come from well-protected family environment, where parents and relatives carry the load and burden to prevent failure of young people. In real life, we all need to take risks, make our own decision, and learn about picking our spirit up after failure to support learning from failure and the ability to transform failure into success. many, many times. It seems that Dollar Enterprise fills a gap in entrepreneurship education.

Table 6. Self-Assessment of Learning on Entrepreneurship – Expected to Learn versus Actually Learned

<table>
<thead>
<tr>
<th>Fundamentals of Entrepreneurship</th>
<th>% within</th>
<th>Count</th>
<th>% within</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square test sig 0.851</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fundamentals of Entrepreneurship - expectation</td>
<td>no</td>
<td>14</td>
<td>48.3%</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>yes</td>
<td>15</td>
<td>51.7%</td>
<td>50</td>
</tr>
<tr>
<td>What It Is Like to be an Entrepreneur</td>
<td>no</td>
<td>23</td>
<td>67.6%</td>
<td>13</td>
</tr>
<tr>
<td>Chi-Square test sig 0.839</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fundamentals of Entrepreneurship - expectation</td>
<td>yes</td>
<td>50</td>
<td>79.4%</td>
<td>50</td>
</tr>
</tbody>
</table>

Note: ***Significant at 0.001, ** Significant at 0.01, * Significant at 0.1
### Table 7. Self-Assessment of Learning in General – Expected to Learn versus Actually Learned

<table>
<thead>
<tr>
<th>Resource Constraint</th>
<th>Count</th>
<th>% within Resource constraint - reality</th>
<th>Count</th>
<th>% within Resource constraint - reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>no</td>
<td>47</td>
<td>81.0%</td>
<td>19</td>
<td>55.9%</td>
</tr>
<tr>
<td>yes</td>
<td>11</td>
<td>19.0%</td>
<td>15</td>
<td>44.1%</td>
</tr>
<tr>
<td>Chi-Square test sig 0.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transform Failure to Success</th>
<th>Count</th>
<th>% within Transform failure to success – reality</th>
<th>Count</th>
<th>% within Transform failure to success – reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>no</td>
<td>37</td>
<td>72.5%</td>
<td>26</td>
<td>63.4%</td>
</tr>
<tr>
<td>yes</td>
<td>14</td>
<td>27.5%</td>
<td>15</td>
<td>36.6%</td>
</tr>
<tr>
<td>Chi-Square test sig 0.081*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Failure</th>
<th>Count</th>
<th>% within Failure - reality</th>
<th>Count</th>
<th>% within Failure - reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>no</td>
<td>29</td>
<td>78.4%</td>
<td>30</td>
<td>54.5%</td>
</tr>
<tr>
<td>yes</td>
<td>8</td>
<td>21.6%</td>
<td>25</td>
<td>45.5%</td>
</tr>
<tr>
<td>Chi-Square test sig 0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No Expectation</th>
<th>Count</th>
<th>% within No expectation - reality</th>
<th>Count</th>
<th>% within No expectation - reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>no</td>
<td>68</td>
<td>80.0%</td>
<td>6</td>
<td>85.7%</td>
</tr>
<tr>
<td>yes</td>
<td>17</td>
<td>20.0%</td>
<td>1</td>
<td>14.3%</td>
</tr>
<tr>
<td>Chi-Square test sig 0.035*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: ***Significant at 0.001, ** Significant at 0.01, * Significant at 0.1
<table>
<thead>
<tr>
<th>Chi-Square test sig 0.014*</th>
<th>Learn everything – expectation</th>
<th>no</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% within Learn everything - reality</td>
<td>47.1%</td>
<td>26.8%</td>
</tr>
<tr>
<td>no</td>
<td>Count</td>
<td>24</td>
<td>11</td>
</tr>
<tr>
<td>yes</td>
<td>Count</td>
<td>27</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>% within Learn everything - reality</td>
<td>52.9%</td>
<td>73.2%</td>
</tr>
</tbody>
</table>

Note: ***Significant at 0.001, ** Significant at 0.01, * Significant at 0.1

Of course there are always a few people indicating that they had no expectations of this course. Many students interpret “no expectation” as “I am willing to learn whatever the instructor teaches”, or “I don’t know what to expect”. Some students expected to learn everything – everything the instructor teaches. Obviously no one can learn everything in one semester. Many individuals came to the class without specific expectations, left the class still without specific expectation. These individuals might be extremely open-minded, or really did not care about the course contents. (Table 7)

CONCLUSION, DISCUSSION, AND IMPLICATION

Many educators and scholars supported the notion of experiential learning, which offers a complimentary aspect of action-oriented curriculum on top of conventional classroom lectures and exams. There are very few empirical studies present data and evaluation from a large-scale of integrated experiential learning and entrepreneurship education. It would be essential to gather data to analyze the impacts of experiential learning on course delivery as well as positive/negative learning outcomes.

The purposes of this article were to share the story of a successful experiential learning program in a non-conventional entrepreneurship program at a university in the United States. The article contributes to the theoretical and practical development of entrepreneurship education in several ways. We have designed, tested, and implemented an effective assessment instrument that can be broadly applied in other institutions. Researchers often seek effective tools to conduct their own studies. Our instrument has been tested and validated in more than 10 years, and has lead to scholarly discoveries associated with entrepreneurial learning and entrepreneurial behavior (Liang and Dunn, 2012). Second, we have utilized data from one semester to demonstrate a systematic approach to (1) explore if students agree or disagree with many notions of entrepreneurial characteristics discussed in literature, (2) understand how and if experiential learning influences each student’s learning expectations and learning
outcomes, and (3) explore the outcomes and effectiveness of experiential learning support entrepreneurship education and practices. Finally, we hope to demonstrate that new ideas and new opportunities in entrepreneurship education could be inspired through students’ reflections on experiential learning linking to entrepreneurship education.

We have shown that many students who took this class did in fact have entrepreneurial characteristics. Most of students agreed that they were generally optimistic, independent, and open to new opportunities. Most students were also realistic when considering risks and making decisions. Majority students in this class had learned more contents and skills that exceeded their expectations regarding (1) “Overall Business Practices”, write a business plan; start a new venture and operate that venture; (2) “Specific Business Management Contents”, financial management, decision making, and new product development; and (3) “Teamwork”, what teamwork is, effective teamwork and communications and “Entrepreneurship”, fundamentals, what entrepreneurship is, failure, transformation to success, and resource constraints. These findings pointed to a different direction for educators to design and implement pedagogy to include a variety of contents. We often want to make sure students learn sufficient materials in their own fields, such as Economics, Math, Sociology, Biology, and Medicine. It is equally important to provoke thinking and practices in people-to-people skills, quality of writing and presentation, professional manner, work ethic, and competency. These essential skills cannot be taught using textbooks or exams. Educators need to embrace the integrated nature of real-world environment when creating experiential learning components for different courses.

As philosophers have said, “we must to teach our children to nest in the wind” and give them “roots and wings.” The results of this study convince the authors that students learn more and more effectively about real life from experiential education that engages them in learning for, not about, whatever career they choose and creatively and affirmatively engaging whatever changes they may face in their life than traditional lecture approaches to entrepreneurship education. As entrepreneurship educators we must be open, no aggressively seek, to new, creative approaches to help our young folks achieve their dream—we must not try to live our lives vicariously in theirs!

There are many other aspects we could study in understanding the impacts of experiential learning on entrepreneurship education or other disciplines. For future studies, new mechanisms will be developed to allow the
analysis to aggregate data over time to discover changes among and between semesters. Additionally, it will be interesting to follow students over longer periods of time to discover how this experiential learning exercise impacts their career choices and development in the future!

**REFERENCES**


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SMALL- TO MEDIUM-SIZED ENTERPRISE CHARACTERISTICS AND PERFORMANCE: AN EXPLORATORY EXAMINATION OF THE CENSUS BUREAU’S SURVEY OF BUSINESS OWNERS

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Rollins College

Timothy L. Pett  
Rollins College

Adrian J. Mayer  
Rollins College

ABSTRACT

The purpose of this paper is to explore the relationship of small- to medium-sized enterprise (SME) characteristics and performance. The study draws on the Census Bureau’s Survey of Business Owners (SBO) Public Use Microdata Sample (PUMS). SBO response variables regarding owner demographics, business acquisition, and business performance are the outcome variables of interest in this study. A one-way analysis of variance (ANOVA) is applied to test whether or not there are differences across SMEs based on firm size. The results provide some interesting differences across the SME firm size groups. In particular, smaller SMEs have different characteristics regarding owner demographics, business acquisition methods, and business performance metrics compared to larger SMEs. The study concludes with some future research directions.

Keywords: SME Size, Owner Demographics, Business Acquisition, Performance.

INTRODUCTION

Small- and medium-sized business owners make important contributions to business creation and growth in America’s economy. Understanding the characteristics of these business owners and their business may shed light on the importance to measuring an economy’s overall well-being (Lichtenstein 2014). A number of studies have examined small- and medium-sized enterprises (SMEs) relative to size and owner demographics (Blackburn, Hart, & Wainwright 2013); business acquisition (Fairlie & Robb 2009); and performance (Mittelstaedt, Harben, & Ward 2003; Wincent 2005; Wolff & Pett 2000). However, few studies have explored the relationship between
demographics and business acquisition with measures of performance as
demonstrated by sales and employee efficiency with regard to sales for
SMEs (Blackburn, Hart, & Wainwright 2013; Pett & Wolff 2016).

The intention of this paper is to contribute to the growing body of
literature exploring the relationship between SME characteristics and
performance. Moreover this research explores the relationship between the
difference in owner demographics (for example, gender, education level, and
age), business acquisition (for example, founded, purchased, inherited, or
transferred/gifted), and business performance (for example, sales, sales per
payroll, and sales per employee) based on the size of the SME firm. The paper
begins with theoretical development which establishes the relationships of the
constructs being examined within this study in relation to SME size. Following
next is a brief literature review to develop the theory establishing the
relationships of the constructs being examined as they relate to SME size. A
discussion of the unique data used in this study and methodology is subsequently
provided. The data analysis and analytical findings are then presented. The paper
concludes with a discussion of the results and suggestions for future research.

LITERATURE REVIEW

Today’s global markets and environment play an important role in
the growth and success of SMEs. The globalization of markets and
industries impacts SMEs profoundly through increased competition, need
for innovation, shrinking time to market, and consumer demands to name
a few. These macro environmental pressures can impact SMEs either
directly or indirectly, resulting in smaller businesses needing to adjust to
the market shock or pressures more quickly than larger small businesses
(Gartner 1997). For example, Adelino, Schoar, and Severino studied the
effects of higher house prices during 2002–2007 on the growth of very
small businesses (Berlin 2014). The research suggests that higher house
prices were significantly associated with higher employment growth at
the smallest enterprises (one to four employees) and that this positive
effect declined monotonically with firm size.

There are numerous studies examining the relationships between
SME and performance (Blackburn, Hart, & Wainwright 2013; Fairlie &
Robb 2009; Mittelstaedt, Harben, & Ward 2003; Wincent 2005; Wolff &
Pett 2000). Barney (1991) suggests that there is an association between a
firm’s resource investments and competiveness. The same can be said of firm size that as the number of employees grows, so should the corresponding resources (knowledge and capability). And as small businesses often have fewer resources compared to larger SMEs, it seems logical that smaller firms would have fewer resources. For example, Lussier and Sonfield’s (2015) research compared “micro” enterprise (0–9 employees) to “small” enterprise (10–49 employees) concerning a number of managerial characteristics across eight countries. They found that small firms are more likely to engage in the formal planning and have a more prescribed management style compared to micro-sized firms. However, they found that the influence of the founder was greater in micro firms. These findings suggest that as SMEs grow in size (number of employees), they seem to benefit from the accumulation of more knowledge and resources.

Wolff and Pett’s (2000) analysis of small firms actively exporting to markets outside the USA revealed that small firms differ among themselves with respect to the competitive pattern used in their export activities. Larger (small) firms exhibited competitive patterns consistent with their size-related resource base. However, smaller (small) firms did not exhibit competitive patterns that could be viewed as consistent with their size-related resource base. In addition, no significant difference in export intensity across three size categories was found.

**Owner Demographics**

The research on gender has seen significant growth among the demographic characteristics and its relationship to performance (Fasci & Valdez 1998; Fischer, Reuber, & Dyke 1993; Gherardi 2015). Research suggests that the increase in women-owned businesses, including startups, has significantly increased recently for various reasons (Fairlie & Robb 2009; Johnson & McMahon 2005). However, many of female led startup businesses have at times been less successful than their male counterparts. Some have suggested it is in part lack of capital (Coleman 2000), family dynamics (Castillo & Wakefield 2006), or industry knowledge (Wilson, Carter, Shaw, & Lam 2007). Notwithstanding, what seems to be true is the increasing number of women-owned businesses including startups (Johnson & McMahon 2005).
Fairlie and Robb’s (2009) research used the confidential microdata from the US Census Bureau to investigate the performance of female-owned businesses, making comparisons to male-owned businesses. Using regression estimates and a decomposition technique, the authors explore the role that human capital, especially through prior work experience, and financial capital play in contributing to why female-owned businesses have lower survival rates, profits, employment, and sales. They find that female-owned businesses are less successful than male-owned businesses because they have less startup capital, less business human capital acquired through prior work experience in a similar business, and less prior work experience in a family business. They also found some evidence that suggest female business owners work fewer hours and may have different preferences for the goals of their businesses, which may have implications for business outcomes.

Education has also been examined as another demographic factor as it relates to business ownership of SMEs. For example, Fairlie and Robb’s (2009) research suggests that small business outcomes are positively associated with the education level of the owner. That is, they found that compared with businesses with owners that have dropped out of high school, businesses with college-educated owners are significantly less likely to close and more likely to experience higher profits, employ more people, and achieve higher sales. In addition, they found those owners that have completed graduate school are 10.4 percentage points more likely to hire employees and have sales that are roughly 37 percent higher than those of businesses owned by college graduates. In fact, their results suggest that across the board, business outcomes increase as the higher level of education is attained.

McDowell, et al. (2014) examined the educational differences in strategic choices of business owners and professional managers in the small business context. The authors posited that owners and managers would choose differing strategic orientations based upon their concern for long-term organizational success versus short-term profits. The role of education in strategic orientation for these two groups was examined. The study results support the contention that organizational position (owner versus manager) can impact the relationship between strategic choice and firm performance. However, the authors did not find a significant
relationship between educational level of the business owners to business strategy and performance.

**Business Acquisition**

Fairlie and Robb (2009) find inherited businesses are more successful and larger than non-inherited businesses. The coefficients are large, positive, and statistically significant in all specifications. However, because inheritances only made up 1.6 percent of all small businesses in their dataset, the importance in determining broad business outcomes was slight. They reveal management experience prior to starting or acquiring a business generally improves business outcomes but does not have a consistent effect across specifications. In contrast, prior work experience in a similar business, which provides specific business human capital, is an important determinant of business success.

**Business Performance**

The relationship between SME’s business activities and performance have long been investigated (Lu & Beamish 2001). Pett and Wolff (2007) develop the theoretical arguments for a contingent path relationship among variables representing the environment, capabilities, strategic orientation, and firm performance. The premise underpinning their study is that internal consistency or fit among contingent relationships yields higher performance levels. Structural equation modeling allows for the statistical examination of multiple relationships simultaneously. The authors find support for the notion that internally consistent paths lead to higher levels of performance.

Mittelstaedt, Harben, and Ward (2003) ask whether there is a minimum size that firms must achieve to take advantage of the benefits of exporting from the United States. Their paper builds on the contributions of previous research in the areas of SMEs and export success and SMEs in the export development process (Wolff & Pett 2000). Analysis of manufacturing exports indicates that firm size serves as a necessary as well as a sufficient condition for export success among small manufacturing firms. Wincent (2005) developed and empirically tested a framework on how firm size can matter for firm behavior and
performance in strategic networks of SMEs. The research studies statistical analysis of standardized questionnaires and analysis from face-to-face interviews with managers in SME networks. The findings suggest that firm size can be an important determinant for firm performance, in addition the author found that networking inside and outside the SME network plays a role. The author suggests that different networking behaviors can have different roles for pursuing corporate entrepreneurship.

Blackburn, Hart, and Wainwright (2013) contributed to the understanding of the factors that influence SME performance and particularly, growth. Their study utilized SMEs employing less than 250 employees. A set of logit regression models was used to test the relationship between employment growth, turnover growth, and profitability. The models included characteristics of the businesses, the owner-managers, and the business strategies. The results suggest that size and age of enterprise significantly explain more of performance and are more important than strategy and the entrepreneurial characteristics of the owner. Interestingly, having a business plan was found to be important factor.

**Research Question**

The intention of this paper is to explore the relationship of SME characteristics and performance. Therefore, the research question we seek to investigate is: *Do different size SME firms have different characteristics, such as owner demographics and business acquisition methods, as well as different business performance?*

A number of studies have examined SMEs relative to size and characteristics such as owner demographics and business acquisition methods (Blackburn, Hart, & Wainwright 2013; Fairlie & Robb 2009; Mittelstaedt, Harben, & Ward 2003; Wincent 2005; Wolff & Pett 2000). On the other hand, few studies have explored the relationship between demographics and business acquisition with measures of performance as demonstrated by sales and employee efficiency with regard to sales (Blackburn, Hart, & Wainwright 2013; Pett & Wolff 2016).
METHODOLOGY

The current study draws on this US Census Bureau’s Survey of Business Owners (SBO) Public Use Microdata Sample (PUMS). The study authors used the Census Bureau’s SBO because it provides the only comprehensive, regularly collected source of information on selected economic and demographic characteristics for businesses and business owners by gender, ethnicity, race, and veteran status. The SBO PUMS file includes national- and state-level data and detailed characteristics of businesses and their owners while protecting the confidentiality of survey respondents. The SBO is part of the economic census conducted every five years in years ending in “2” and “7” (US Census Bureau 2012). The SBO-PUMS contains 2,165,680 data observations from the 2007 survey. The study experimental design involved classifying SMEs into one of four different categories based on firm size.

2007 Census Bureau SBO-PUMS

The Census Bureau’s PUMS file was created for the 2007 SBO. The SBO collects information on the gender, ethnicity, race, and veteran status of business owners. The SBO additionally collects characteristics of businesses and business owners such as the sources of capital used to start the business and the age of the business owner. The SBO produces estimates for a variety of industry classifications, geographic levels, and cross-tabulations (US Census Bureau 2012). Included are all nonfarm businesses filing Internal Revenue Service tax forms as individual proprietorships, partnerships, or any type of corporation, and with receipts of $1,000 or more. The SBO covers both firms with paid employees and firms with no paid employees. The SBO is conducted on a company or firm basis rather than an establishment basis. A company or firm is a business consisting of one or more domestic establishments that the reporting firm specified under its ownership or control (US Census Bureau 2012).

Experimental Design
For the purposes of this study, SMEs are defined as firms that employ between one and five-hundred employees. Furthermore, each SME firm was positioned in one of four categories based on firm size: sole (1 employee), micro (2–25 employees), small (26–100 employees), medium (101–500 employees). Firm size is the predictor variable in this study.

The SBO response variables regarding owner demographics (that is, gender, education level, and age) and business acquisition (that is, founded, purchased, inherited, or transferred/gifted) are outcome variables in this study. The coding for the SBO response variables is provided in Table 1.

Table 1
SBO Response Variable Coding

<table>
<thead>
<tr>
<th>Name</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>0 = Female</td>
</tr>
<tr>
<td></td>
<td>1 = Male</td>
</tr>
<tr>
<td>Education</td>
<td>0 = Not Reported</td>
</tr>
<tr>
<td></td>
<td>1 = Less than High School</td>
</tr>
<tr>
<td></td>
<td>2 = High School</td>
</tr>
<tr>
<td></td>
<td>3 = Technical School</td>
</tr>
<tr>
<td></td>
<td>4 = Some College</td>
</tr>
<tr>
<td></td>
<td>5 = Associate's</td>
</tr>
<tr>
<td></td>
<td>6 = Bachelor's</td>
</tr>
<tr>
<td></td>
<td>7 = Master's +</td>
</tr>
<tr>
<td>Age</td>
<td>0 = Not Reported</td>
</tr>
<tr>
<td></td>
<td>1 = Under 25</td>
</tr>
<tr>
<td></td>
<td>2 = 25 to 34</td>
</tr>
<tr>
<td></td>
<td>3 = 35 to 44</td>
</tr>
<tr>
<td></td>
<td>4 = 45 to 54</td>
</tr>
<tr>
<td></td>
<td>5 = 55 to 64</td>
</tr>
<tr>
<td></td>
<td>6 = 65 or over</td>
</tr>
<tr>
<td>Founded</td>
<td>0 = Not Reported</td>
</tr>
<tr>
<td></td>
<td>1 = Yes</td>
</tr>
<tr>
<td></td>
<td>2 = No</td>
</tr>
<tr>
<td>Purchased</td>
<td>0 = Not Reported</td>
</tr>
<tr>
<td></td>
<td>1 = Yes</td>
</tr>
<tr>
<td></td>
<td>2 = No</td>
</tr>
<tr>
<td>Inherited</td>
<td>0 = Not Reported</td>
</tr>
<tr>
<td></td>
<td>1 = Yes</td>
</tr>
<tr>
<td></td>
<td>2 = No</td>
</tr>
<tr>
<td>Transferred/Gifted</td>
<td>0 = Not Reported</td>
</tr>
<tr>
<td></td>
<td>1 = Yes</td>
</tr>
<tr>
<td></td>
<td>2 = No</td>
</tr>
</tbody>
</table>

The key performance indicator for this study was the SME firm’s receipts in 2007, or fundamentally “sales.” In order to consider the relative efficiency of the SME firm, sales per payroll and sales per employee were
also determined for performance measurement purposes. A data transformation using the natural logarithm function was applied to each performance measurement (that is, sales, sales per payroll, and sales per employee) in order to more closely meet the assumptions of the statistical procedures applied and to improve the interpretability of the results. These three performance measurements are also outcome variables for the study. The outcome variables (which include the SBO response variables and the performance measurements) are listed in Table 2.

The descriptive statistics of interest in this study are the mean and standard deviation of each outcome variable. Table 2 contains the descriptive statistics as well as a correlation matrix. It lists the outcome variable names down the first column and the variable number associated with its name across the first row. To locate the correlation for any pair of variables, find the value in the table for the row and column intersection for those two variables.

### Table 2
**Descriptive Statistics and Correlations**

<table>
<thead>
<tr>
<th></th>
<th>Mean Dev</th>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gender</td>
<td>0.82</td>
<td>0.38</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Education</td>
<td>4.44</td>
<td>2.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Age</td>
<td>4.03</td>
<td>1.53</td>
<td>0.384**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Founded</td>
<td>1.23</td>
<td>0.57</td>
<td>-0.001</td>
<td>0.297**</td>
<td>0.394**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Purchased</td>
<td>1.63</td>
<td>0.61</td>
<td>-</td>
<td>0.372**</td>
<td>0.482**</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Inherited</td>
<td>1.82</td>
<td>0.53</td>
<td>0.024**</td>
<td>0.466**</td>
<td>0.587**</td>
<td>0.450**</td>
<td>0.647**</td>
<td></td>
</tr>
<tr>
<td>7. Sales</td>
<td>6.76</td>
<td>1.91</td>
<td>0.135**</td>
<td>0.092**</td>
<td>0.132**</td>
<td>0.179**</td>
<td>-</td>
<td>0.008**</td>
</tr>
<tr>
<td>8. Sales per</td>
<td>1.49</td>
<td>0.84</td>
<td>0.046**</td>
<td>-</td>
<td>-</td>
<td>0.055**</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10. Sales per</td>
<td>4.70</td>
<td>1.17</td>
<td>0.129**</td>
<td>0.065**</td>
<td>0.066**</td>
<td>0.074**</td>
<td>0.019**</td>
<td>0.020**</td>
</tr>
</tbody>
</table>

**p < 0.001

A one-way analysis of variance (ANOVA) is used to test the means of each outcome variable across the SME firm size predictor variable. The ANOVA tests the null hypothesis that samples in the four firm size groups are drawn from populations with the same mean values. The results of a one-way ANOVA can be considered reliable as long as the following assumptions are met:
(1) Response variable residuals are normally distributed (or approximately normally distributed).
(2) Variances of populations are equal.
(3) Responses for a given group are independent and identically distributed normal random variables.

ANOVA is a relatively robust procedure with respect to violations of the normality assumption (Kirk 1995). The ANOVA results of firm size group differences are provided in Table 3.

Table 3
ANOVA Results of Firm Size Group Differences

<table>
<thead>
<tr>
<th>Owner</th>
<th>Sole (single)</th>
<th>Micro (2–25)</th>
<th>Small (26–100)</th>
<th>Medium (101–500)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>0.79</td>
<td>0.81</td>
<td>0.86</td>
<td>0.89</td>
</tr>
<tr>
<td>Education</td>
<td>3.27</td>
<td>4.37</td>
<td>4.65</td>
<td>4.71</td>
</tr>
<tr>
<td>Age</td>
<td>3.77</td>
<td>3.98</td>
<td>4.26</td>
<td>4.33</td>
</tr>
<tr>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founded</td>
<td>1.07</td>
<td>1.21</td>
<td>1.35</td>
<td>1.38</td>
</tr>
<tr>
<td>Purchased</td>
<td>1.69</td>
<td>1.63</td>
<td>1.59</td>
<td>1.57</td>
</tr>
<tr>
<td>Inherited</td>
<td>1.81</td>
<td>1.83</td>
<td>1.82</td>
<td>1.78</td>
</tr>
<tr>
<td>Transferred/Gifted</td>
<td>1.81</td>
<td>1.83</td>
<td>1.82</td>
<td>1.78</td>
</tr>
<tr>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>4.85</td>
<td>6.31</td>
<td>8.61</td>
<td>9.97</td>
</tr>
<tr>
<td>Sales per Payroll</td>
<td>1.62</td>
<td>1.51</td>
<td>1.37</td>
<td>1.33</td>
</tr>
<tr>
<td>Sales per Employee</td>
<td>4.85</td>
<td>4.62</td>
<td>4.81</td>
<td>4.76</td>
</tr>
</tbody>
</table>

Results

The SME dataset included all SBO responses for firms employing between one and five-hundred employees in 2007. The SME dataset consisted of 903,791 SBO survey observations.

Data Analysis

A total of 14,770 SBO survey observations recorded no receipts (or no sales) in 2007, while 22,447 SME firms recorded no payroll in
2007. Finally, 3,138 SME firms with at least one employee reported no sales and no payroll in 2007.

Each SME firm in the dataset was placed in one of four categories based on firm size. There were 126,031 SME firms with one employee (sole) in 2007. 547,454 SME firms had two to twenty-five employees (micro). 182,341 SME firms employed twenty-six to one-hundred employees (small). 47,965 SME firms had one-hundred-one to five-hundred employees (medium).

Although the respondents in the SBO survey had the ability to identify four principal owners, this study only considered the first owner in the analysis. A bar chart of owner gender by SME firm size is shown in Figure 1. The data in Figure 1 indicate that the primary owner of SME firms is predominately male, and that the proportion of male ownership tends to grow as the SME firm size gets larger.

**Figure 1: Bar Chart of Owner Gender by SME Firm Size**

A bar chart of owner education level by SME firm size is given in Figure 2. The data in Figure 2 show that the mode education level for the
owner of a SME firm is a bachelor’s degree, irrespective of SME firm size.

**Figure 2: Bar Chart of Owner Education Level by SME Firm Size**

A bar chart of owner age by SME firm size is provided in Figure 3. The data in Figure 3 indicate that the mode owner age for SME firms is 45 to 54 years old, except for SME firms with one-hundred-one to five-hundred employees. The mode owner age for medium-sized SME firms is 55 to 64 years old.
Table 3 contains business acquisition statistics showing whether the owner founded, purchased, inherited, or received the business via a transfer or gift respectively, by SME firm size. The data indicate SME firms were primarily founded by the owner. But as SME firm size gets larger, the likelihood that the owner purchased the business tends to grow.

Findings

The SME dataset included all SBO responses for firms employing between one and five-hundred employees in 2007. The SME dataset consisted of about 900,000 SBO survey observations. The descriptive statistics in Table 2 reveal the central tendency of the outcome variables of interest. The gender of the SME firm’s primary business owner was 82 percent likely to be male and 18 percent female. The average education level of the SME firm’s primary business owner was in the range of some college to an associate’s degree. The SME firm’s primary business owner was more likely to have founded the business than to have purchased, inherited, or received the business as a transfer/gift. The average SME firm sales, sales per payroll, and sales per employee were $863,000.
The correlation coefficient for each pair of outcome variables is shown in Table 2.

The ANOVA results of firm size group differences in Table 3 indicate important differences in the means of the outcome variables for each firm size grouping (that is, sole, micro, small, and medium). The outcome variables are categorized by owner demographics, business acquisition, and business performance. The ANOVA results indicate the primary business owner tended to become more male, more educated, and older as the SME firm size got larger. In the business acquisition category, the smaller SME firms were more likely to have been founded by the primary owner than the larger SME firms; but the larger SME firms were more likely to have been purchased by the primary owner than the smaller SME firms. In the business performance category, sales increased as the SME firm size grows. The average SME firm sales were $128,000 (1,000e4.85), $550,000 (1,000e6.31), $5,490,000 (1,000e8.61), and $21,400,000 (1,000e9.97) for sole, micro, small, and medium size firms respectively. But there is evidence the smaller SME firms were more efficient than the larger SME firms in terms of sales per payroll and sales per employee. The average SME firm sales per payroll were $5,050 (1,000e1.62), $4,530 (1,000e1.51), $3,940 (1,000e1.37), and $3,780 (1,000e1.33) for sole, micro, small, and medium size firms respectively. The average SME firm sales per employee were $128,000 (1,000e4.85), $101,000 (1,000e4.62), $123,000 (1,000e4.81), and $117,000 (1,000e4.76) for sole, micro, small, and medium size firms respectively.

The ANOVA results indicate significant differences across the four firm size groups for the outcome variables (that is, owner demographics, business acquisition, and business performance). This is not entirely surprising given the population size of the SME dataset.

A graph of the ANOVA results of firm size group differences for business performance is provided in Figure 4. It is evident that sales tended to increase as the SME firm size grows across the four groups. It is also clear that SME firms tended to be less efficient in terms of sales per payroll as the SME firm size grows across the four categories. The tendency for SME firms being less efficient in terms of sales per employee as the SME firm size grows across the four categories is not as straightforward as sales per payroll.
We conducted a final analysis reported in Figure 5 which presents a bar chart of the year the SME business was established and the owner gender. Although the owner gender is predominately male (refer to Figure 1), there are a couple of interesting trends revealed in Figure 5. When the owner is male, it is most likely the SME business was established at least a decade before the survey was taken. Whereas when the owner is female, it is a little less likely the SME business was established years ago and a little more likely it was established more recently compared to when owner is male. The implication is that the SME business tends to be a little younger (or less developed) when the owner is female than when the owner is male.
DISCUSSION

The limitations of this study are the constraints on generalizability, applications to practice, and/or utility of findings that are the result of the ways in which we initially chose to design the study. The survey data for this study was obtained from the Census Bureau’s 2007 SBO-PUMS. The SBO covers both firms with paid employees and firms with no paid employees. For evaluation purposes we excluded data from firms with no paid employees in order to determine finite values for the business performance metrics. We excluded data from firms with more than five-hundred employees from this study as American-based SME firms are generally defined in the literature as having no more than five-hundred employees. The SBO collected demographic information for at least one owner and up to four owners of each business firm. We designated Owner 1 as the primary owner of interest for this study, thus excluding data and analyses for Owner 2, Owner 3, and Owner 4 if that data were reported.
A novel feature of the study experimental design is the incorporation of primary owner characteristics and whether there were any business acquisition and business performance correlations. The research implications indicate opportunity for future research using the SBO PUMS data. For instance, extending the research to include all reported owners of a firm, as well as the governance structure and financial investments of the owners are of interest.

The SBO is part of the economic census program, which the Census Bureau is required by law to conduct every five years (Title 13 – Census 2009), for years ending in “2” and “7.” The Census Bureau combines data from the SBO with data from other economic surveys, economic censuses, and administrative records. The SBO is the only source of statistics about the demographic characteristics of the owners of approximately 28 million American businesses, including their business organizations and activities. Government program officials, industry organization leaders, economic and social researchers, and business entrepreneurs routinely use the SBO statistics (US Census Bureau 2012).

Companies comprising five-hundred or fewer employees make up the large majority of businesses in the USA. Understanding the characteristics of small business owners and their business is essential to effective policymaking at every level of government. Unfortunately, too many elected officials, policy advisers, and special interest advocates choose to ignore the economic realities of how government can and does affect small business. Evidenced-based policy informed by scientifically rigorous study is needed to identify programs and practices capable of improving policy-relevant outcomes.

REFERENCES


TO SELL OR NOT TO SELL - SMALL BUSINESS OWNERS DETERMINING PROFESSIONAL AND PERSONAL VALUATIONS: A CASE STUDY OF MONTEGRO’S ITALIAN GRILLE

Dean A. Koutroumanis  
The University of Tampa

George Alexakis  
Florida Gulf Coast University

Amy L. Brownlee  
The University of Tampa

ABSTRACT

The case study examines the decision of whether three business partners should sell a highly successful restaurant. Montegro’s Italian Grille epitomizes the small business that began as a concept and culminated into a local institution. Financial valuations along with professional and personal considerations weigh heavily on what will potentially be a life-altering decision for the three partners and their long-time employees. The focus of the case centers on the owners’ possible actions and the resulting implications. Students explore the decision calculus of the partners who feel compelled to consider other stakeholders, namely their family and staff, in making the important decision on whether to sell or not to sell. The situation described in the case is closely based on actual events. All names of the parties involved (including the restaurant name) have been altered considerably to safeguard anonymity.

THE CASE

It was a hot, sunny, mid-July morning in 2015. The sun had just breached the horizon of Florida’s stunning Port of Miami. Mr. Dan Montegro was gazing out over the aqua blue water, enjoying a chef-prepared breakfast on the deck of a cruise ship. As he dined and awaited debarkation, Dan’s mind reflected back on the restful 7-day cruise from which he, his family, and his friends were returning. His friend, Steve, reminded him to deactivate his cellular telephone’s “airplane mode” setting. The disabling of electronic devices by virtually all passengers because of high roaming rates continues to be one of the distinguishing features of a cruise vacation. Rarely did one see another
passenger using a cellular phone on the ship. After a week of being electronically disconnected, Dan suspected that a tsunami of text, email, and voice mail messages would start rolling in . . . and they did. As his family and friends were eagerly discussing booking their next cruise, Dan sorted through a week’s worth of electronic communications. This was not so bad, he thought, as the task of deleting or addressing seemed to go swimmingly. Then, all of the sudden, Dan’s face turned ghost white! His eyes were riveted on his wife’s face with his jaw dropped. Not a sound was emanating from Dan. Donna, his now worried wife asked, “What’s wrong Dan?! What did you read?” Dan turned the phone around, handed it to his wife while mumbling, “I can’t believe it . . . this is just incredible.” At this point, everyone else at the table almost simultaneously exclaimed, “What’s so incredible?!” Donna turned away from the cell, looked at everyone, then looked at Dan and asked, “Wow! What does this mean?” Dan responded very slowly, “It means that they took our first offer. They will give us the price that we desire, to buy our restaurant from us outright—they will pay for the restaurant in a one-time payment . . . in full!”

The Offer

The email that silenced the often talkative Dan Montegro came from Atlantic East Coast Bank Corporation (AECB). It was an unanticipated hefty offer being made by AECB to purchase Dan and company’s 19-year-old, award winning restaurant, Montegro’s Italian Grille (MIG), along with the 1-acre property on which it was located. Eight months earlier, a real estate developer from the bank had contacted Dan and inquired if he would be interested in selling his property. Initially, Dan did not pay much attention to the developer. He had received numerous calls and more than a few genuine offers from very interested parties over the years, none of which developed into an agreement. The interest in the property was not surprising, given that it was situated in a high-traffic prime location within the financial quarter of Miami, Florida. This particular individual representing AECB was persistent and apparently serious. Therefore, Dan spoke to his partners: his brother Jay and their longtime college friend Joe Bozzio. Jay had said at the outset, “If they really want it that bad, let’s give them an outlandish price and all the terms we could ask for . . . If they bite, we’ll sell it to them.” Dan was fine with the idea of “high-balling” the bank. He gave the AECB’s real estate developer what the extremely high selling price had to be to get the three partners out of their long-standing, enormously successful
restaurant. Dan and the bank representative had several additional conversations for about 2 months and then communications became sporadic, followed by silence on the part of AECB’s representative. The absence of communication continued for 5 months. Dan and his partners took this to mean that the bank declined their selling price. This was not much of a disappointment, since the partners were very content with their business and their lives. Then, Dan read the fateful email message as the cruise ended.

The Decision

When Dan finally got off the ship, he hurried to meet with his partners and tell them the news. Their initial response was very similar to those aboard: surprise, shock, and disbelief. Brother Jay stated, with a perplexed look, “Now what? Are we really going to sell our baby?” Dan responded, “I’m not sure, I really don’t know what to think about it right now. We obviously need to call the bank’s rep in the morning about Letter of Intent details.” Partner Joe asked quizzically, “How could they pay this much? It doesn’t even make sense . . . $3.4 million is absolutely crazy! I can’t believe we’re even discussing this unbelievable offer.” Dan added, “There is no way that this property is even worth half of what they offered us.”

Business Partner Backgrounds

The Montegro brothers had a long history in the restaurant business. Their family owned and operated multiple restaurants in the Toronto, Canada area. The family’s flagship restaurant was located very close to a large university. It was your typical college hangout, serving homemade Italian favorites including chicken parmesan, Italian sandwiches, and pizza. In 2015 the family restaurant was named one of the Top 20 Iconic College Restaurants in the North America by a famous online newspaper known as NA Today Onweb. Dan and Jay started working at the restaurant as soon as they were able to reach the food counter. They became progressively involved with the daily operations and management of the business during their teenage years. When the brothers finished college in the United States, they did not return home, to the disappointment and displeasure of their parents. They both went to work for a U.S. national restaurant chain. They fine-tuned their management skills and continued to learn about the professionalization of the restaurant business. Not
only had they experienced the “mom and pop” management style that they grew up with, but also acquired higher education and chain/franchise experience. Dan would remind his younger brother during his periodic pep talks, “We have a triple threat of knowledge and experience— independent ownership, chain management, and university education.” They were able to implement practical solutions based business concepts and theories, professional information, and industry experience. The brothers met their future partner, Joe Bozzio, while attending university. All three coincidentally shared the same vision of one day owning and operating their own casual dining, full service, Italian foodservice operation.

While in Florida one summer, Dan began scouting the Miami area for a piece of property to open their dream restaurant. Dan and Jay purchased the building and the property for their new venture in January of 1996. Joe came in as a partner strictly in the business, and did not own any portion of the land or building. Accordingly, MIG paid rent to Dan and Jay. The brothers were partners in the restaurant and also its landlords. They had learned this business practice while growing up in Toronto exposed to a family business environment. Their father had continuously preached to them, “You need to always own your real estate, this way no one controls your destiny.” The father had witnessed many family members and friends receive unjust treatment from oppressive landlords in his lifetime.

History of Montegro’s Site

The parcel of land where MIG stands is located in the central business district of Miami known as Brickell. A New York City (NYC) restaurateur, Mr. Nick Fotinopoulos, originally purchased the property in 1987 for $500,000. He had previously ran two successful, multimillion-dollar diners in NYC. Fotinopoulos envisioned recreating an NYC-style diner at the Brickell location. He spent an additional $1.2 million to build a state-of-the-art facility with high quality equipment and handcrafted furniture. Blue Island Diner opened its doors in 1988. Unfortunately, the concept was unsuccessful and the restaurant promptly declared bankruptcy. One of Fotinopoulos’s main miscalculations was not seeing that the Miami demographics and psychographics starkly contrasted those of NYC. Fotinopoulos subsequently leased the foodservice facility to a succession of 8 different restaurant concepts and night clubs during the ensuing 8
years. The location acquired a horrible reputation, as it became a revolving door of failed enterprises.

The Montegro brothers were introduced to Fotinopoulos by a mutual friend. The brothers negotiated and eventually purchased the building and property from Fotinopoulos for $510,000. Fotinopoulos, ended up losing more than $1,000,000 during the period that he owned the property. After a complete renovation, which took close to 6 months, MIG opened for business on Memorial Day 1996. “Our dream is now a reality!” cried Jay, after the first customer order was taken. The partners were challenged to take on the difficult task of overcoming the location stigma associated with multiple business failures in launching their new restaurant establishment. However, Montegro’s realized substantial growth within its first year of operations. Research has shown that approximately 60% of all new restaurants fail in the first year of business (Parsa & Self, 2005). Montegro’s had survived through the initial critical period. In fact, it had survived longer than any other foodservice operation on that particular site, truly an encouraging sign for the partners.

MIG Background

May 27, 2015 marked the 19-year anniversary of MIG—a notable accomplishment for any independently-owned business, let alone a restaurant located in Miami, Florida. The Italian eatery was owned and operated by the Montegro brothers, Dan and Jay, and a long-time college friend, Joe Bozzio. It had been the longest standing restaurant in the Brickell business district for nearly 2 decades. The restaurant had received many accolades during the years and was annually voted as “Best in the greater Downtown Miami area” by *Miami Magazine* since 1998. Many Miami residents referred to the restaurant as “a Miami-Dade institution.” Its surrounding vicinity was Miami’s commerce district with a high-end residential area nearby. Because MIG was located in a densely populated commercial and business city center, many large corporate head offices were within close proximity. MIG served the business community during lunch hours by offering quality food at affordable prices within a professional atmosphere. Several close by hotels and a posh residential development enhanced the lunch rush and ensured a large dinner crowd. The professionalization developed by the “triple threat” Montegro brothers permeated every aspect of establishment, from the décor to the menu content. One of the most common remarks of first-time patrons was, “Is this restaurant a franchise or
part of a chain?” These comments pleased the three partners to no end, since one of their primary goals was to draw on their chain and franchise experience to establish a highly professional tight restaurant theme.

The Property

The facility itself had a very open floorplan, housed in a 7,500 square foot building. The seating capacity was approximately 275 guests, which included a 45-seat bar and a very popular 24-seat community dining table in the lounge area. The community dining table typified the restaurant atmosphere, aptly described by one longtime patron as having “a strong sense of space, place, community, and family.” Additionally, Montegro’s had a separate 70-seat private banquet facility. The highly sought-after reception room was continually booked and very rarely vacant. It primarily catered to corporate parties. The one-acre restaurant property was a corner parcel located on Brickell Avenue, one of the busiest streets in South Florida. The road had traffic counts of more than 80,000 vehicles per day.

In addition to the local business professionals, the core target market also included business travelers and vacationers staying in the area. There were 22 lodging operations within a 4 mile stretch of the restaurant’s location. Many hotel guests visited MIG while they were in town, even though the restaurant had an extremely strict policy against incenting concierges or any other hotel staff. The MIG owners were fully cognizant of the manner in which recommendations by lodging facilities that were influenced by inducements could lead to complacency, ultimately reducing food and service quality.

Another core customer demographic that MIG served was the upscale neighborhood of Quail Cove. The Quail Cove development contained several sizable gated communities. The communities housed a large number of Brickell district business executives who were neighbors with an equally large number of affluent retirees (see Exhibit 2).

Abundant traffic volume, ample parking, and accessible ingress and egress curb cuts made the MIG property an ideal restaurant site. MIG and its neighboring foodservice establishments were all rather seasonal, with the bulk of their revenues being generated from November through April. The restaurant launched in 1996, employing 3 owner-managers and more than 60 employees (70% of which were full time). MIG had a per person check average between $15 and $25, consistent with its casual dining restaurant industry segment.
category. The establishment offered a wide dish selection, ranging from Italian-American classics to some nouvelle-like contemporary Mediterranean cuisine offerings. The extensive 60-item menu was complemented by a full liquor license. The general concept was very similar to a Carrabba’s Italian Grill. However, MIG’s Italian family recipes were known for being much more tasty and larger than typical chain/franchise portion sizes. Menu design, food quality, and portion size characterized the restaurant’s core competencies. Avoiding pre-cooked, pre-packaged, and pre-cut products meant that the food was prepared using fresh ingredients in real time that preserved nutrients. The process drastically limited the necessity for additives and artificial preservatives. Although labor costs increase when a foodservice operation cooks food with basic ingredients in this manner (i.e., from scratch), food costs go down because of the savings associated with the absence of commercially-prepared ingredients and their accompanying packaging. The flavorsome home-style taste profiles were coupled with unusually large plate portions. For example, a single serving of pasta at MIG was a minimum of one full pound. Very few people were able to finish a main course meal, so take-home boxes were ubiquitous. The double competitive edge of food quality and quantity had led to MIG’s rapid and lengthy success by making value its partner. The strategy had worked exceedingly well. MIG had consistent sales growth since the year that it opened. Talk about turning MIG into a chain of restaurants quickly diminished because the partners fully understood that providing their level of food quality in a full service restaurant operation of this type is virtually impossible to do in a multiple location scenario. Jay, who was known as the quality control expert of the three, always responded to the MIG restaurant chain suggestion in the same manner, “Everything from the tomato sauce to the desserts would have a different flavor profile if we opened more than two units.”

The People

Since its inception, virtually everyone working at MIG was intrinsically driven at their workplace because they either cooked or served fresh and wholesome food to patrons who received great value. The employees knew that they were doing the right thing during a time of staggering all-out corporatization of the foodservice industry. The food quality, value, and family environment among management and associates fed a deep pride that could not be overstated. The ownership team understandably reciprocated a fervent sense of loyalty to
their employees. The owners would often state, “We have the best people in town, hands down!” when referring to their employees’ performance and sense of ownership. The employee turnover at MIG hovered below 10%, which is unheard of in an industry that suffers excessive turnover rates (Brown, Thomas, & Bosselman, 2015).

Deciding whether to sell a successful business is often complicated and laden with emotional issues that require particular care (Singer & Wodar, 2011). Decision makers consider their own financial fate and often that of their partners and employees. In the case of MIG, Dan Montegro has publically stated in a local newspaper that, “We owe much of our success to our people’s loyalty, commitment, and work ethic because these things boost customer service, stimulate sales revenue, and dramatically lower costs . . . We have the best people in town, hands down!” The more than 60 people that the restaurant employed have tenure ranging from 7 months to 19 years.

Like most small business owners and entrepreneurs of all kinds, the emotional nature of selling the business was unanticipated by the Montegro partners. Just the rumination of selling may be enough for some individuals to inadvertently sabotage the deal so that it has no chance. Owners mainly buy and sell products or services, so it is not every day that they have to think seriously about selling their business.

Those that actually go through the complete process of making a lot of money, achieving a long-term goal of building a business, and then actually selling can evoke even more dramatic feelings. The toll of selling the business often induces a sense of loss, sorrow, and melancholy. The effects of anger and depression (i.e., anger internalized) may be experienced for many months and even years after the closing date (Giesea, 2015). Individuals like the Montegro partners risked everything financially, co-created a restaurant, nurtured it and made it special to everyone, built it to success, and enjoyed the resultant rewards. Furthermore, they architected their professional and personal lives surrounding the relatively all-consuming business. Then, it had the potential of all going away. Ensuing inner angst, personal identity crisis, and some post-sale depression are not far from the realm of possibility. Many entrepreneurs begin feeling insecurity, a lack of purpose, and a sense of drift following a sale (Giesea, 2015).

Furthermore, the total value of a business is not only composed of its financial worth and private benefits, as is usually assumed by traditional financial theory, but includes emotional components that also have an impact on
valuation (Astrachan & Jaskiewicz, 2008). Be careful what you wish for is the old adage. Another issue with getting everything is that you run out of reasons to keep trying (Giesea, 2015). The intimate and social support necessary during emotionally unsettling times may not be readily available when the restaurant and all its familiar and friendly people cease to exist as a collective entity. Some small business sellers find success by regarding the end of the old project as beginning of a new one. The often-vexing question is, What can the new project be? Addressing this question should be part of each prospective seller’s exit strategy.

The Restaurant Industry

Several important external factors and emerging trends warrant full examination to support a correct decision regarding the AECB’s offer. The owners considered the following information about the economy and the foodservice industry to gauge the future success of their restaurant. These factors helped determine whether or not they sold their restaurant. The most rudimentary factor concerns industry growth. While the Great Recession was technically over in June of 2009 (NBER, 2012), the foodservice industry did not begin recovering until a few years later. The recession had a profound negative effect on the restaurant industry, causing a record number of closures. More than 4,000 U.S. restaurants closed for business in a 1-year period, April 2008 to March 2009 (Lockyer, 2009). Foodservice establishments felt the effects of the economic decline in various ways nationwide, such as patrons taking shorter lunches that lowered guest check averages (Dizik, 2011). MIG’s success did not escape the nation’s economic realities, as sales dropped for several months but recovered quicker than most because of the management team’s experience and knowledge (see Exhibit 1). It is interesting to note that this accomplishment was achieved without lowering menu prices or offering any discounts. Dan was adamant at the time, “Montegro’s Italian Grille has spent years creating a perceived value for our superior quality food and service. We do not want our customers to think that we have been overcharging, because we haven’t! The prices are fair. Besides, lower prices now means we’ll need to raise prices later, which ultimately could be more harmful to our long-term success.”

By 2010, the U.S. restaurant industry encompassed approximately 945,000 restaurants and accounted for 49 percent of the country’s food dollar (NRA, 2010). The foodservice sector was comprised of many independently
owned and operated restaurants, which were still industry mainstays. Chain and franchise restaurants represented an additional segment, which had grown in both scope and popularity during the past several decades. Between 2000 and 2012, the number of chain stores grew at an annual compound rate of 2.2% in the U.S. Visits to casual dining restaurants, which were full service foodservice operations with a lower check average than fine dining, were at a 6-year low in the year ending February 2014 (NPD Group, 2014). MIG was classified in the casual dining segment of the industry (like Outback Steak House and Olive Garden). However, the segment had a projected growth in 2014 of 0-3% (NPD Group, 2014). The highest growth segment of the restaurant industry was the fast casual segment (e.g., Chipotle, Panera, and Boston Market), with a 2014 expected growth of 14% (National Restaurant Association, 2010). The remaining effects of the recession on same store sales seemed to have already reached its low point.

The casual dining restaurant industry segment displayed improvement in total sales in the year before the MIG offer, as the economy showed clear signs of sustained health (Ruggless, 2015). The National Restaurant Industry’s chief economist reported that as of July of 2015, restaurant sales kept registering solid gains with signs of additional consumer spending growth into the foreseeable future (Grindy, 2015). An improving job market, rising income, and the lower gasoline prices were all cited as contributing to the positive future growth prediction.

Real Estate and Restaurant Valuation

Owners are often concerned whether they are receiving enough money when they are considering selling a business. Much “depends on the sellers’ needs and goals, how much the business generates in earnings, and how much the market is willing to pay for those earnings” (Singer & Wodar, 2011, p. 38). The MIG buyers are not concerned with the earnings because they were going to raze the restaurant and build another one of their bank branches. The potential sale of the business, therefore, could disproportionally have become a land/property proposition. The selling price would have amounted to what AECB was willing to pay for the site. The owners gave an asking price that reflected the land and the business.
Restaurants represent a niche market in the real estate industry. The way that a restaurant is typically valuated (i.e., a business’s economic value) is by using the following method:

- Value of Operation: 4.0 times the restaurants net income
- Value of Real Estate: 8% capped at 7.5% (Capitalization rate annual return for your real estate investment. This is calculated by dividing the rental net income by the cost of the property.) (Kimmons 2015).

“These three factors—a business multiple, a rent factor, and a real estate overall capitalization [sic] rate—embody the actions of restaurant market participants” (Rule, 2014, p. 118). Owners need a basis for deciding whether to sell, and one metric might be if the proceeds—whether all up front or parcelled out over time—are at least enough to provide for core capital requirements or lifetime spending needs (Singer & Wodar, 2011). Once the price and remaining financial terms for MIG would be agreed to on paper, the final decision would have depended on the consideration of the possible consequences of selling or not selling.

**DISCUSSION QUESTIONS**

1. What factors are important for the MIG owners to consider before making a decision on whether or not they should sell the restaurant to AECB? Why are these factors important?

2. How will the future of MIG look if the partners keep the company? Project how successful might the restaurant be in the next 5 years, and then 10 years. How will that translate into net profits? Why?

3. How would the MIG partners find out what their business was worth (a fair price) versus the property?

4. Should the MIG owners have made a decision to sell their restaurant? Why? Why not? What are the pros, cons, and ramifications?
REFERENCES


**EXHIBIT 1**  
**Summary of Financial Performance of Montegro’s (2009-2014)**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011**</th>
<th>2012</th>
<th>2013***</th>
<th>2014</th>
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</thead>
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<tr>
<td><strong>Sales</strong></td>
<td>$2,190,500</td>
<td>$2,100,000</td>
<td>$1,873,500</td>
<td>$1,839,500</td>
<td>$1,912,000</td>
<td>$2,058,410</td>
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<tr>
<td><strong>Food Cost</strong></td>
<td>$541,050</td>
<td>$526,200</td>
<td>$512,254</td>
<td>$513,241</td>
<td>$532,545</td>
<td>$601,254</td>
</tr>
<tr>
<td><strong>Total Cost of l/b/w</strong>*</td>
<td>$78,541</td>
<td>$73,943</td>
<td>$68,410</td>
<td>$67,584</td>
<td>$69,541</td>
<td>$75,025</td>
</tr>
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<td><strong>GROSS PROFIT</strong></td>
<td>$1,570,909</td>
<td>$1,499,857</td>
<td>$1,292,836</td>
<td>$1,258,675</td>
<td>$1,309,914</td>
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<td><strong>Crew Labor</strong></td>
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<td>$429,521</td>
<td>$392,141</td>
<td>$400,251</td>
<td>$412,510</td>
</tr>
<tr>
<td><strong>Bonus</strong></td>
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<td>$5,850</td>
<td>$-</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<td><strong>Management Fee</strong></td>
<td>$125,000</td>
<td>$125,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
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<tr>
<td><strong>Total Personnel</strong></td>
<td>$583,350</td>
<td>$558,850</td>
<td>$529,521</td>
<td>$492,141</td>
<td>$500,251</td>
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<tr>
<td><strong>Rent</strong></td>
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<td>$132,000</td>
<td>$132,000</td>
<td>$132,000</td>
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<tr>
<td><strong>Advertising</strong></td>
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<td>$12,000</td>
<td>$18,000</td>
<td>$15,000</td>
<td>$17,000</td>
<td>$18,000</td>
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<tr>
<td><strong>Other Expenses</strong></td>
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<td>$643,500</td>
<td>$615,900</td>
<td>$598,700</td>
<td>$610,500</td>
<td>$658,210</td>
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<tr>
<td><strong>Total Operating Expense</strong></td>
<td>$1,412,750</td>
<td>$1,346,350</td>
<td>$1,295,421</td>
<td>$1,237,841</td>
<td>$125,9751</td>
<td>$132,0720</td>
</tr>
</tbody>
</table>
*l/b/w = Liquor / Beer / Wine Cost

** Full effect of the Great Recession

*** Economic Recovery

EXHIBIT 2
Age Distribution of Montegro’s Customers (Data Collected by MIG, 2013)

Exhibit 3
Household Income Distribution of Montegro’s Customers (Data Collected by MIG, 2013)
TO SELL OR NOT TO SELL - SMALL BUSINESS OWNERS
DETERMINING PROFESSIONAL AND PERSONAL VALUATIONS: A
CASE STUDY OF MONTEGRO’S ITALIAN GRILLE

INSTRUCTOR NOTES

Case studies deliver instructive industry simulations for students studying
the business disciplines. They can also nurture entrepreneurial attitudes and
behaviors. They provide assistance for aspiring small business owners to be
competitive in a complex, ever-changing global marketplace (SBA, 2015). They
advance the discipline of entrepreneurship. The ambiguity inherent in most
effective cases reflects the often confusing nature of applied entrepreneurial and
business environments. Good judgment to make proper decisions begins with
extracting what facts are relevant to addressing the actual problems in a practical
setting simulated by the case study.

Teaching Note

The MIG case study presents factors associated with selling a highly
successful business. Instructors have an opportunity to use the teaching case for
students to explore financial and personal dilemmas that arise when small
business owners are confronted with an enticing offer to sell. The MIG partners
need to consider their collective and individual goals. They should also
contemplate other tangential factors before coming to a decision. The practical
classroom usefulness of the case stems from having students play out the
cognitive processes and outcomes as if they were the successful businesspersons.
The case study fundamentally compels learners to put themselves in the owners’
position and explore the potential results of selling or not selling.

Methodology

The case is largely based on one of the author’s professional experience
of owning and operating a casual dining restaurant. The fact pattern relates how
three individuals collectively attempt to steer through the complicated decision
making processes that they were faced with after receiving a generous offer for their business, presumably for its property. After successfully navigating the challenges associated with a tarnished location and the Great Recession, the restaurant experienced steady sales revenue increases. The restaurant’s financials depict the actual drop in sales during the economic downturn and then subsequent growth during the period preceding the bank’s offer. The recent upswing in the economy also generated interest for real estate development in the area. The development upturn was the driving force of AECB’s offer for the property.

The names of the owners, the name of the restaurant, and the location of the business have all been changed. All financial data in the case are very close to the actual numbers of the business. Additionally, the information provided about the relationships between the owners (i.e., biological siblings and college friend) are all real with the exception of the names. While the geographic location (Miami) is nowhere near the restaurant’s actual location, the description of the district closely parallels the area of the actual restaurant site.

**Teaching Approach**

The case study’s focus on small business management and decision making processes makes it appropriate for *Small Business Management, Introduction to Entrepreneurship, Entrepreneurial Finance,* and *Hospitality Management Capstone* courses at the undergraduate and graduate level. For a Small Business Management or an Introduction to Entrepreneurship class, the case works well when complemented with textbook chapters focusing on the entrepreneurial process. Specific topics may include exit strategies, management decision making processes, and business life-cycles at the independently owned and operated level. The case would also be suited for Hospitality Management classes on multiple levels including: business valuations, concept development, and market analysis regarding restaurant market segments.

Ideally, students will work on the case study individually for an individual grade. Then, they would be grouped for team discussions. Finally, each team would present its findings (e.g., talk about whether team members agreed, disagreed, etcetera) in front of the class and encourage discussion.

**CASE OVERVIEW**
The MIG case study is based on one of the author’s professional experiences of owning and operating a casual dining restaurant. Because the narrative is very closely based on real events, the names and locations were changed for anonymity. The case allows students to gain an understanding of the issues and challenges that small business owners face when presented with an opportunity to sell their award-winning restaurant to a regional bank. The decision facing brothers, Dan and Jay Montegro, and their business partner, Joe Bozzio, revolve around selling an 19-year-old business and the property on which it sits. The restaurant is in the maturity stage of the business life cycle in a fairly low growth industry. Students are asked to evaluate the restaurant’s past and current financials as well as to evaluate industry data to determine the best decision for the partners.

**LEARNING OBJECTIVES**

- Identify small business owner issues while students navigate challenging business environments.
- Analyze the positives and negatives of an entrepreneur taking advantage of business opportunities.
- Evaluate opportunity costs of business decisions, both tangible (business and property) and intangible (people, passions, etcetera).
- Conduct a cost-benefit analysis between valuation of business and real estate that will help lead to the financial decision criteria.

**DISCUSSION QUESTIONS**

1. **What factors are important for the MIG owners to consider before making a decision on whether or not they should sell the restaurant to AECB? Why are these factors important?**

   This question can be discussed within the classroom in terms of the stakeholders affected by the decision to sell. Students should consider both economic and industry factors as well as human factors.

   The fact that MIG has been in operation for 19 years as an independently owned and operated business, creates many challenges for the ownership group in making this decision. The restaurant was negatively affected by the recession, which put a strain on the financial
resources of the business. Although revenues were on the rise, profitability is still not at pre-recession levels (Direct students to Exhibit 1.). Additionally, the students should examine the current trends of the restaurant industry. MIG is classified in the casual dining segment of the industry (like Outback Steak House and Olive Garden). The segment had projected growth in 2014 of 0-3%. The highest growth segment of the restaurant industry was the fast casual segment (e.g., Chipotle, Panera), with a 2014 projected growth of 14% (National Restaurant Association, 2010).

**Factors to Consider:**

a. Age of the building and furniture, fixtures, and equipment. The restaurant will be in need of remodeling and a new roof in the foreseeable future. Students can research usable life and disposable values to calculate depreciation, gain or loss replacing assets, and other costs normally considered in evaluating cost of building renovations.

b. MIG is in the *mature* to *decline* stage of the business life cycle.

c. Suppliers have been charging more for food and beverage. MIG’s cost of goods sold have thus increased during the past 3 years, creating lower levels of gross profit (see Exhibit 1). MIG had not correspondingly increased menu prices in 2 years due to the poor economy.

d. Continuing increases in minimum wage, specifically for tipped employees, leading to higher labor costs. This directly affects restaurant’s net profitability.

e. The Affordable Care Act – MIG employs more than 60 fulltime employees and will need to consider the economic impact of the law.

f. The actual value of the property and building. Students could investigate the comparable market value of the building and property. Research options could include contacting a local real estate broker or accessing the county property appraiser’s site (market value).

g. Customer base – MIG has been successful during the years by attracting loyal customers and building repeat business. Many of its restaurant patrons are now reaching retirement age. As these people retire, to what extend will they continue to patronize MIG?
(Students can see the customer profile in Exhibit 2. - Data collected by MIG, 2011.)

h. Long-tenured employees. The owners feel an obligation to employees who have been very loyal to the business. MIG’s devoted employee culture resulted in dramatically lower costs associated with the low employee turnover as well as significantly higher levels of customer service.

Small business owners may often have other issues to contemplate, such as:

i. What they are going to do for the rest of their life.

j. The effects on their relationships (e.g., spending too much time at home).

k. The propensity for many owners without occupation, vocation, or pastime subsequent to a sale to buy another restaurant, with its inherent financial risks.

l. 2. How will the future of MIG look if the partners keep the company? Project how successful might the restaurant be in the next 5 years, and then 10 years. How will that translate into net profits? Why?

This question should elicit a broad range of responses from students because the issues are speculative, requiring them to project into the future. Although usually difficult to accurately predict, such exercises require students to use past information to make more accurate forecasts. The fact pattern presents most of the information but students should be encouraged to conduct external research to fully address this question. The goal is to have students leverage data to aid in decision making and to stimulate their critical thinking. Depending on the course where the case study is utilized (e.g., an entrepreneurial finance course), students can use the information provided to create estimated or pro forma financial statements for the next 5 or 10 years. Students should explicitly state their assumptions when making any predictions about the future of MIG.

As the case states, MIG has been in operation for 19 years. If the partners decide to keep the restaurant, they will need to make significant improvements to the facility. Renovations should include replacing the roof on the building, purchasing new furniture, and reconfiguring the restaurant layout to attract new customers. These capital expenditures
could cost MIG anywhere from $100,000 to $400,000. Based on the financial outlook (see Exhibit 1), students should conduct a cost/benefit analysis related to the renovation decision.

With both the needed physical improvements and external environmental forces (i.e., labor costs, insurance costs, increase in cost of raw materials, etcetera) to consider, students should surmise that profitability will likely decrease during the next several years. Recommendations to counter these forces could include increasing menu prices.

3. **How can the MIG partners find out what their business is worth (a fair price) versus the property?**

   The value of the property is relatively simple to calculate using multiple methodologies. The students can contact a local real estate broker and request a *Comparable Market Analysis* of the area. Additionally, they can access the county property appraiser’s site and look at the county’s market assessment of the property. In MIG’s case, the property and building valuation was approximately $700,000.

   The business valuation can be more complicated to figure out. The students should research different business valuation methodologies to determine MIG’s business value. Restaurant operators need to value their business for various reasons including negotiating a sale price (Gorodesky & McCarron, 2014). Although students may find different valuation methodologies, Gorodesky and McCarron (2014) contended that a restaurant’s valuation is usually around four times its earnings. Therefore, based on MIG’s 2013 net earnings, the restaurant’s valuation is approximately $245,000. Both valuation figures (i.e., building and business, property) puts the total valuation figure for MIG at $945,000.

4. **Should the MIG owners sell their restaurant? Why? Why not? What are the pros, cons, and ramifications?**

   The answers to this question will vary based on each student’s analysis and personal perceptions of the appropriate course of action. Entrepreneurs often have a difficult time letting go of their businesses because of the emotional connection that they have to them. A personal characteristic of entrepreneurs is typically “passion.” Emotions like passion at times cloud proper judgment in decision making. Part of the
entrepreneurial process includes having an exit strategy. Because of their passion, some entrepreneurs do not want to plan for the future by considering potential exit strategies.

Reasons to Sell:

- MIG has received a buyout offer from AECB that is more than three times the market value of the business and property.
- Will provide partners with long term financial security.
- Allows the partners to pursue different opportunities and interests.
- The restaurant is in the maturity/decline stage of its business lifecycle.
- The restaurant has not fully recovered from the economic impact of the Great Recession.
- There are external environmental forces (uncontrollable) that will affect the future of the restaurant: cost of goods, labor costs, Affordable Care Act, economic recovery, etcetera.
- Overall uncertainty of what the future will bring with regard to the MIG’s future growth.

Reasons Not to Sell:

- Successful businesses are not easy to establish, and MIG is firmly established. Also, MIG’s “Italian family recipes are known for being much more tasty and larger than typical chain/franchise portion sizes.” These are attributes that give the restaurant a sustainable competitive advantage. Having healthy revenue and a steady cash flow is a coveted position among business owners and should be appropriately considered. Given the expertise and experience of the partners, coupled with the very established nature of the business, MIG could provide Dan, Jay, and Joe a prosperous life for years to come.
- Negative economic effect on the local economy: multiplier effect, jobs, taxes, etcetera.
- The impact that the sale will have on MIG employees. As the case study states, many of the employees have been with MIG for many years. Where will they go and what will they do next?
• The affect that the sale will have on the loyal customers of MIG, most of whom have patronized the local business for nearly 2 decades.
• End of the legacy for the business and partners. The partners are all very deeply self-identified with MIG. The sale will undoubtedly leave a large void in the partners’ identity.

EPILOGUE

At the conclusion of the case, the MIG partners decided to sell their restaurant. They believed that such a substantial offer would unlikely come again. They made provisions for some of their staff to work at another restaurant in which they held minority stakes. They also reached out to other restaurateurs in the area and successfully placed all of the remaining employees who wanted to continue working in the industry. Some employees decided to leave the industry and pursued opportunities in other industries. The partners remained in contact with those employees until they found work. Dan Montegro became moderately depressed after the sale. He cited three reasons:

• He felt a loss of something special that he built, nurtured, and made successful as part of a team.
• He felt hurt that the relationships with the MIG staff and patrons had come to a virtual end.
• He felt that because his daily routine of many years concluded, he had nothing to do.

These issues quickly turned into motivation to purchase another business enterprise to fill the void that he was feeling. The issues were quickly resolved after Dan took a job as an adjunct instructor teaching foodservice management at a local college.

After the big decision, Jay Montegro became the operating partner of the above-referenced restaurant in which he and Dan were minority shareholders. Thus, Jay has been working with most of the MIG employees. He was satisfied with what he considers to be a healthy transition. He decided that the most appropriate approach to making such important once-in-a-lifetime decisions begins with self-awareness. He was convinced that staying in the restaurant business was right for him. The partner, Joe, alternatively decided that the restaurant business was no longer for him. He became a serial entrepreneur and
launched a new venture, JMA Medical Supply. Ever since the sale, he has been happy working with people in a different setting and loves the challenges involved with building another business.