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Editors
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Shanan G. Gibson, PhD
William C. McDowell, PhD

The Small Business Institute® is the premier organization dedicated to field-based student consulting and outreach to small businesses. Our members are actively involved with small businesses and entrepreneurial firms in their communities and regions.
Letter from the President

One sign of success for any academic organization is the journals associated with it; at the Small Business Institute®, we have two refereed journals associated with our organization. This is a major difference between our organization and many others. As I attend many conferences around the globe, I am aware of the fact that this is a strategic advantage for our members. The editors always attend our conference and host a panel to “Meet the Editors” where any attendee can ask questions concerning topics, turnaround time, acceptance rates, and other issues concerning their publications that have a direct effect on their career.

I want to thank all those that made our 2013 Conference a huge success, including our Vice President of Programs, John Hendon, and Vice President of Programs-Elect, Bill McDowell, who stepped up to the plate to complete the Proceedings and other responsibilities he voluntarily took on. From the hard work of the reviewers to the session chairs, discussants, presenters and panelists, everyone did a great job of making the conference a success. Now, as we look forward to our 2014 conference at the newly remodeled Tropicana Hotel and Resort in Las Vegas, be sure to reach out to your colleagues and invite them to submit a paper, panel presentation, Project of the Year entry, or Showcase Award entry.

Our published Small Business Institute® Conference Proceedings go through a double-blind review process to be accepted, as is required by most universities and colleges. The Editors of the Small Business Institute® Journal (SBIJ)-Michael Harris, Bill McDowell, and Shanan Gibson, and the Journal of Small Business Strategy-Gerry Hills, attend the conference and are scouting for best papers for the journals. Take advantage of having two journals that come with your membership fees and the opportunity to get in front of the editors directly with your research. These journals complement the programming efforts of the Small Business Institute®, and feature research that is relevant to academics, practitioners and policy makers. The editors are helpful in giving authors feedback—so don’t hesitate to contact them about your paper! The editors are interested in state-of-the-art topics relating to small business, entrepreneurship, experiential learning, and new methods of teaching.

Beginning this month, the Spotlight column on our website will feature on a rotating basis an SBI Program (contact Don Lester, VP Marketing), an SBI Researcher (contact Shanan Gibson, VP Research & Publications), and an SBI Student (contact Mike Harris, Past President). This is an effort to expand information about our members, stress our research, and get the word out about our organization and its opportunities.

Don’t forget to visit www.smallbusinessinstitute.biz to learn more about our organization and feel free to link the site to your website. Also, both SBIJ and JSBS submission information can be found on our website.

Dianne H.B. Welsh, National President
Small Business Institute®
Letter from the Editors

Welcome to the April 2013 issue (Vol. 9, No. 1) of the Small Business Institute® Journal (SBIJ). We hope you enjoy the five scholarly research articles and case included in this new issue.

Continuing with the theme of providing high quality articles that appeal to a diverse and varied readership, the current issue includes an assortment of research, including two of the Best Paper award winners from the 2013 National Small Business Institute® Conference. Included in this issue are empirical studies that examine the relationship between organizational size and attractiveness, and the determinants of business climate in small and medium-sized enterprises. In addition, there is an interesting article that explores the impact of seasonality in the small business arena. The final two manuscripts in this issue include a pedagogical piece on massive open on-line courses (MOOC), and a teaching case focused on human resource issues in a start-up direct sales company. The MOOC article should be very appealing to those interested in entrepreneurship education in a distance education context; and hopefully you enjoy the lessons learned from the teaching case. Our objective is to provide scholarly works that advance the literature base, as well as provide thought provoking discussions and implications for those interested in applied research. Hopefully you will agree this issue accomplishes that goal.

As journal editors, we know that one important factor when deciding where to submit research is the overall visibility and associated quality perceptions of a journal. In an effort to increase the prominence of the SBIJ and our authors, we are in the process of negotiating an increase of our presence within the EBSCO family of databases and have recently received approval for inclusion in several ABI INFORMS databases (ABI/INFORM Complete, ABI/INFORM Global, Entrepreneurship, and ProQuest Central). We hope to conclude the contractual efforts during the summer to the benefit of our authors. Increased submission and citation rates will benefit not only our organization, but the scholarly reputations of our authors!

We would like to offer our sincere thanks to the authors who have contributed their work, and the dedicated reviewers who provide critical insight. The success of the journal is especially dependent upon these two groups, as well a timely and collegial review process. We are very fortunate to have a great relationship with our authors and reviewers, and they play a critical role in the publication of each issue. As we move forward to the next issue, we continue to encourage new manuscript submissions related to small business. For information about submitting your work for consideration in the SBIJ, please visit the journal website at http://www.sbij.org.

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Personality as a Moderator of the Relationship between Organizational Size and Organizational Attraction Perceptions

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The ability of an organization to attract employees who will successfully execute their job duties is critical for the long-term success of any organization. Applicants considered conscientious, outgoing, enthusiastic, and emotionally stable may seem more attractive to employers than those with personalities of opposing dimensions. The present study applied a vignette approach to determine whether the personality domains of the Five Factor Model of Personality moderated the relationship between organizational size and overall organizational attractiveness. Results from a survey of 138 potential job applicants provided evidence that highly conscientious and extraverted job applicants found large firms attractive, while those who were open to experience, yet low in conscientiousness, found small firms attractive. These findings are intriguing when considering that conscientiousness is the strongest personality predictor of performance overall (Barrick, Mount, & Judge, 2001) and that individuals considered low in conscientiousness are likely to exhibit a weak work ethic and substandard performance levels. Practical implications for small organizations are provided.

Being considered “attractive” to job seekers offers numerous advantages to organizations seeking to attract and retain the highest levels of intellectual and human capital and to ultimately achieve a sustainable competitive advantage (Berthon, Ewing, & Hah, 2005). Employer attractiveness can be defined as “envisioned benefits that a potential employee sees in working for a specific organization” (Berthon, Ewing, & Hah, 2005, p. 151). Over the past decade, consultants have published an array of anecdotal articles touting the benefits obtained (Herman & Gioia, 2001; Higgs, 2005) and resources required (Herman & Gioia, 2001; Higgs, 2005) to become attractive to employees. Yet while attractiveness offers obvious benefits for organizations, the literature examining the predictors of organizational attractiveness is underdeveloped, primarily focusing on the attractiveness of large organizations and often based on the perceptions of a relatively narrow MBA student population.

Previous research has identified several organizational predictors of organizational attractiveness, such as reputation and corporate social performance (Turban & Greening, 1996; Albinger & Freeman, 2000), pay/salary/benefits (DelVecchio, Jarvis, Klink, & Dineen, 2007; Browne, 1997), intellectual challenge (Montgomery & Ramus, 2011), brand equity (DelVecchio et al., 2007), impressions of co-workers (Devendorf & Highhouse, 2008), and geographic location (Butler, Sanders, & Whitecotton, 2000). This growing literature has also often focused on the MBA student population and its attractiveness perceptions of large organizations (Arbaugh, Bento, & Hwang, 2010; Rubin & Dierdorff, 2009; Navarro, 2008; Scott, 2000), as this group of job applicants is easily accessible and highly desirable in such organizations. Yet the MBA student population only represents a small proportion of the entire job applicant pool in the employee workforce, so studies focusing on additional rungs of the employment ladder are additionally desirable. Furthermore, the job choice decisions of MBA students may vary from those of the much larger (and also highly desirable) undergraduate college student population.

While research has suggested that respondents uniformly base perceptions of attractiveness on broad-based categories such as reputation, pay, and geographic location, other factors are likely to influence whether applicants consider organizations attractive and prestigious. The person-organizational fit theory and literature (Kristof, 1996) calls attention to variation in organizational choice and focuses on the particular job applicant’s interests and values. One recent study used this theory to explain the relationship between personal values and organizational cultures, and distinguished the latter through
an emphasis on rules versus risks and also rewards versus relations (Borg, Groenen, Jehn, Bilsky, & Schwartz, 2011). The authors found that a better person-organization fit can be achieved when the personal values of workers align closely to these types of organizational culture. They note that a person who values tradition and security is better served in an organization that values rules. In contrast, a person who values achievement may be better served in a rewards-focused organization.

The Borg et al. (2011) study informs theory and practice about the relationship between values and organizational cultures. We know less about the relationship between the outward manifestations of such values, i.e., the job applicant’s personality. Studies that have identified relationships between personality and preferences for particular organizational culture types have found that relationships do exist. One such study by Judge and Cabell (1997) found that the Big Five personality dimensions (extraversion, conscientiousness, openness to experience, neuroticism, and agreeableness) related to various preferences for organizational culture types. This study was conducted during a recruiting season on a college campus and primarily focused on student responses about organizations with which they were interviewing. Organizations conducting on-campus recruiting are generally large, probably attributable to the resources required to recruit on-campus. As noted by Bernardin (2010), recruiting costs typically run in excess of $6,000 per on-campus recruit and such costs may be formidable to more resource-challenged small firms.

Few studies have focused on organizational attractiveness of small firms and/or the relationship between the personality profiles of potential job applicants and organizational attractiveness based on organizational size (c.f. Lievens, Decaesteker, Coetsier, & Geirnaert, 2001). Small and medium-sized enterprises (SMEs) comprise a significant portion of all firms within the United States. According to a U.S. Census Bureau (2011) report, firms with less than 500 employees represent over 99% of all firms in the U.S. Moreover SMEs account for 49% of all employees and 43% of the nation’s payroll. While these data reveal that SMEs represent a substantial portion of U.S. workers, the academic business literature is largely based upon findings within large organizations (cf. Lechner & Leyronas, 2009; Hyman, & Osborne, 2006; Heneman, Tansky & Camp, 2000), perhaps attributable to data availability and such firms’ extensive resources and strong revenues. Since almost half of the U.S. population works for SMEs, attention to the facilitators of a sustainable competitive advantage within SMEs is undoubtedly warranted.

Some research suggests that job satisfaction may be higher in SMEs than in larger organizations. One recent study found that employees’ perceptions of job quality are highest in small firms and decrease as the size of the firm increases (Storey, Saridakis, Sen-Gupta, Edwards, & Blackburn, 2010). Specifically, the authors found that the presence of “formality” - or policies, programs, and procedures – was negatively related to perceptions of job satisfaction. Interestingly, this finding contrasts with the recruitment strategies of some organizations. One study of corporate messages on a large recruiting website found that firms’ place the most emphasis on their “successful” and “large” attributes to attract job applicants (Backhaus, 2004). Backhaus states that “no empirical studies have supported the notion that organization size, success, or global reach are inducements to applicants, yet these corporate recruitment statements emphasize these attributes over all information” (p. 130).

Accordingly, our study aims to address gaps in the research by developing a better understanding of organizational attractiveness in SMEs by examining job seekers’ personalities and organization size preferences. We use the domains of the well-known Five Factor Model of Personality (Costa & McCrae, 1992) to assess personality, and vignettes developed for the present study to delineate size by distinguishing two organizations’ levels of formality, structure, and human resource policies and practices. Our focus includes both small and large organizations so that we can draw comparisons between the two. The framework upon which we build our model stems from theories of social identity (Tajfel & Turner, 1979) and similarity attraction (Berscheid & Walster, 1974; Byrne, 1971).
Social identity theory suggests that people categorize themselves as part of an in-group by their age, race, organization, club, school, or other salient group with whom they identify closely (Tajfel & Turner, 1979). Similarity attraction theory posits that people are attracted to similar, rather than dissimilar, others (Berscheid & Walster, 1974). These theories suggest that people prefer to engage in and support relationships with others with whom they closely identify. Relationships pose fewer cognitive challenges when parties share similar values, attitudes, and experiences (Kunda, 1999).

In the next section, we review the extant literature to build and test a model of the moderating effects of personality on the relationship between organizational size and organizational attractiveness.

**DIFFERENCES BETWEEN SMALL AND LARGE FIRMS**

Human resource (HR) policies have been shown to impact job choice among potential applicants (Bretz & Judge, 1994). Bretz and Judge (1994) found that individual differences on traits such as locus of control and preference for individual work affected how attractive these individuals found organizations that differed on specific HR practices such as team work and merit pay. Previous research has also examined how HR practices differ in large versus small firms (for review see Cardon & Stevens, 2004). This research shows marked differences in how small versus large firms approach their management of human resources. For instance, Heneman, Tanksy and Camp (2000) found in a review of the small business literature that compensation at small organizations focused on not only pay and monetary incentives but also psychological rewards of working in a small firm, the available learning opportunities, and the recognition likely in a smaller firm.

In general, small and large firms do seem to have many of the same worries with regard to human resources (Hornsby & Kuratko, 1990). However, other research has shown that smaller organizations tend to have less formal HR polices and may not have HR professionals – people specializing in planning and implementing HR policies and practices (Heneman, et al., 2000). Hornsby and Kuratko (1990) argue that smaller firms do use many of the same HR practices as larger firms and that small firms’ lack of formality is overstated in the literature. However, numerous studies have identified different patterns in HR practices between small and large firms.

Previous research has found that smaller organizations tend to hire for organizational fit instead of hiring for a specific job (Heneman, Heneman, & Judge, 1997). Staffing decisions in smaller firms are therefore based on the extent to which the decision-makers believe an applicant will take on additional jobs as needed and will be able to handle multiple tasks or responsibilities. Additionally, during the hiring process, personnel in smaller organizations are less likely to use personality tests and person-organization fit instruments that have been shown to be valid and useful in larger organizations (Heneman, et al., 2000). The reasons smaller firms do not use these types of selection instruments revolve around the idea that these firms have fewer resources than larger firms, make fewer hiring decisions and have fewer employees; additionally, smaller firms end up relying on general managers instead of human resource professionals to conduct the human resource activities (Klass, McClendon, & Gainey, 2000).

Other human resource areas that differ between small and large firms include training and performance appraisal. Training in smaller organizations tends to be more informal and relies on on-the-job training to a great extent with few formal training programs (Storey, 2004; Westhead & Storey, 1996). Performance appraisals in smaller organizations also tend to be more informal and continuous as opposed to occurring at set times of the year. These frequent, informal performance evaluations are more focused on controlling and monitoring employees rather than on developing them (Gilbert & Jones, 2000; Neeson, Billington, & Barrett, 2007).
One final difference between small and large firms with regard to human resources management relates to the policies aimed at work-life balance. Larger firms are more likely to have formal, specific policies intended to promote work-life balance (Bond, Hyman, Summers & Wise, 2002; Galinsky & Bond, 1998). Accordingly, Galinsky and Bond (1998) found that organization size was second only to industry type as the strongest predictor of whether a firm would have formal work-life balance policies. This previous empirical research on work-life balance shows that smaller firms are less likely to have organizational-level policies, yet small firms may address work-life balance concerns in more informal ways. Case-based evidence suggests that policies promoting work-life balance, such as flexible work arrangements, do occur in small and medium-sized enterprises. Yet, as noted by Dex and Scheibl (2001), the arrangements tend to be more flexible, informal and overseen by lower level managers rather than through formal or organizational-level policies.

In summary, previous research has identified a number of areas in which human resource practices vary between small and large organizations. We propose that the personality characteristics of job applicants will likely impact the attractiveness of these varying types of organizations. To assess potential job applicants’ personalities, we use the Five Factor Model of Personality (FFM) (Costa & McCrae, 1992; Barrick et al., 2001). Judge and colleagues state that “virtually all personality measures can be reduced or categorized under the umbrella of a five-factor model of personality” (Judge, Higgins, Thoresen, & Barrick, 1999, p. 622). The domains of the FFM are extraversion, agreeableness, conscientiousness, emotional stability/neuroticism and openness to experience (Costa & McCrae, 1995; Judge, Bono, Ilies & Gerhardt, 2002). These domains have been found to predict leadership effectiveness, career success (Judge et al., 2002), and managerial job performance (Barrick et al., 2001; Oh & Berry, 2009) and are thus likely to influence career choices and perceptions of organizational attractiveness.

As noted by Barrick, Mount, and Gupta (2003, p. 46) “it is clear that personality traits and vocational interests are related to some degree.” The authors build upon the work of Holland (1978) who stated that vocational interests ‘may actually be another dimension of personality.’ Barrick and colleagues (2003, p. 46) invoke the theory of vocational personalities and work environments to state that an “employee’s satisfaction with his or her job, as well as the propensity to leave that job, depend on the degree to which the individual’s personality matches his or her occupational environment.” Coupled with person-organization fit theory (Kristof, 1996), the theory of vocational personalities and work environments provides theoretical support for the argument that the attractiveness of an organization varies to some degree as a function of the personality of the job applicants.

**PROPOSED IMPACT OF PERSONALITY ON ORGANIZATIONAL ATTRACTIVENESS PERCEPTIONS EXTRAVERSION**

Extraverts are talkative, active, positive, outgoing, sociable, adventurous and assertive individuals who tend to seek out and enjoy change (Barrick & Mount, 1991; Goldberg, 1990; Bono & Judge, 2004). They prefer social jobs in which they can work with and help others, while avoiding ordered, systematic activities involving tools and machinery (Barrick et al., 2003). Enterprising jobs that enable extraverts to use their verbal skills to persuade and lead others to attain organizational goals, while avoiding symbolic and systematic activities are also appealing to extraverts (Barrick et al., 2003). Furthermore, two meta-analytic studies have concluded that of the Big Five factors of personality, extraversion is the most consistent correlate of leader emergence, leader effectiveness (Judge et al., 2002), and transformational leadership (Bono & Judge, 2004). Extraversion predicts high job performance in both sales and managerial work (Barrick & Mount, 1991) and has also been shown to positively affect teamwork (Borman, Penner, Allen & Motowidlo, 2001). Conversely, introverted individuals are described as aloof, quiet or modest (Goldberg, 1990).

Extraverted individuals seem likely to be attracted to organizations where their outgoing nature, leadership skills, and flexibility are appreciated. Given that small organizations are often characterized...
by relatively unstructured and dynamic environments in which employees can work hand-in-hand with owners and managers to influence and achieve organizational goals, we would expect extraverted individuals to be attracted to such climates. Accordingly, we propose our first hypothesis:

H1: Extraversion will moderate the relationship between organizational size and organizational attractiveness such that individuals high in extraversion will find small organizations attractive.

AGREEABLENESS

Agreeable individuals tend to be cooperative, warm and courteous (Goldberg, 1990). On the other hand, skeptical individuals (low in agreeableness) can be described as untrusting, critical or argumentative. Costa and McCrae (1992), however, also described agreeable individuals as more passive and conforming. They value affiliation and the avoidance of conflict (Graziano, Jensen-Campbell, and Hair, 1996). Other research suggests that highly agreeable individuals may also be less proactive (LePine & Van Dyne, 2001; Tett & Burnett, 2003). This past research seems to suggest that highly agreeable individuals will consider large organizations to be attractive since the work is prescribed and structured and they are not required to be proactive. Therefore, we posit as follows:

H2: Agreeableness will moderate the relationship between organizational size and organizational attractiveness such that individuals high in agreeableness will find large organizations attractive.

CONSCIENTIOUSNESS

Highly conscientious individuals are persevering, organized, dependable and achievement-striving (Costa & McCrae, 1992). In contrast, individuals with low scores in conscientiousness are described as forgetful, incompetent, lazy or careless. These characteristics indicate that highly conscientious individuals will prefer larger organizations in which achievement and advancement are more likely and upwardly mobile opportunities more prevalent. Lievens et al. (2001) found that relationship in a study examining how personality moderates the relationship between organizational attractiveness and organizational size. Their study, however, did not focus on how human resource practices differ between small and large organizations. Since previous research has found that the more a person believes he/she will fit in an organization the greater the attraction to the organization (Kristof, 1996), it seems likely that the greater structure found in the human resource practices of large organizations should be attractive to individuals with high level of conscientiousness. This leads to our next hypothesis:

H3: Conscientiousness will moderate the relationship between organizational size and organizational attractiveness such that individuals high in conscientiousness will find large organizations attractive.

EMOTIONAL STABILITY

Emotional stability, also called neuroticism (inverse relationship) or emotionality (Barrick & Mount, 1991), at the low end is characterized by being anxious, insecure, self-pitying or immature (Goldberg, 1990). Individuals with high levels of emotional stability are described as calm, self-reliant, and stable. Previous research has shown that neurotic individuals might be predisposed to consider changes in a work environment negative or threatening (Burke, Brief & George, 1993; Watson & Clark, 1984). Additional research has also shown that neurotic individuals react negatively to situations where they experience low levels of control or perceive high levels of uncertainty (Tett & Burnett, 2003). These
findings suggest that neurotic individuals will consider the unstructured and dynamic work environment of a small organization to be unattractive. Accordingly, we propose our next hypothesis:

H4: Neuroticism will moderate the relationship between organizational size and organizational attractiveness such that neurotic individuals will find small organizations to be unattractive.

OPENNESS TO EXPERIENCE

Individuals with high levels of openness to experience are described as imaginative and curious (Barrick & Mount, 1991). These individuals have a propensity to be adaptive in their work (Thoresen, Bradley, Bliese, & Thoresen, 2004) and to handle changes in task demands more effectively (LePine, Colquitt & Erez, 2000). In small organizations, jobs are less well-defined and individuals often need to manage a variety of tasks to ensure organizational outcomes are achieved. Small organizations’ lack of structure in training, promotions and work will also require that individuals are proactive in approaching their work. Neal, Yeo, Koy and Xiao (2012) found that individuals with high levels of openness to experience were more proactive in their work at both the individual and organizational levels. Accordingly, we propose the following hypothesis:

H5: Openness to experience will moderate the relationship between organizational size and organizational attractiveness such that individuals high in openness to experience will find small organizations attractive.

RESEARCH METHODOLOGY

PHASE 1: MANIPULATION CHECK

We conducted our analyses in two phases. In the first phase, we administered two manipulation check surveys to 64 undergraduate and graduate students enrolled in a variety of business courses at a medium-sized private university in the southeastern United States. The mean age of the respondents was 22 and 68% were female. Participants read a paragraph describing the characteristics of an organization. The description was designed to represent either a larger organization or a smaller organization (see appendix for the vignettes used), yet neither description referred to the organization as “large” or “small.” Geographic location was the same for both descriptions and starting pay was not mentioned. Primary differences included the formality of the job definition, the presence of formal training and performance appraisals, the reporting structure, and the presence of formal human resources policies. These differences were based on previous research examining differences between larger versus smaller firms (Cardon & Stevens, 2004).

Participants read the short descriptions, answered the manipulation check questions and provided demographic data. No other variables were measured during the manipulation check. Two questions were used to measure the extent to which the manipulation was successful. The first question asked respondents to “circle the amount below that you think best estimates the number of employees at the company.” The options were: 1 – 50; 51 – 100; 101 – 150; 151 – 200; 201- 300; 301 – 400; and Over 400. An independent samples t-test indicated that the mean difference was significant (p <.000) under assumptions of equal or unequal variance. The mean score for the large company manipulation was 5.07 (SD = 1.76), while the mean score for the small company manipulation was 1.62 (SD = 1.48). The second question asked participants to “circle the number that best describes the size of the company you read about.” The 7 point Likert-type scale was anchored with 1 = small, 4 = medium, and 7 = large. The mean score of the group taking the large company manipulation was 5.13 (SD 1.11), while the mean score for the group taking the small company manipulation was 2.29 (SD 1.24). A two-tailed independent samples t-test indicated that the mean difference between the two groups was highly significant (p < .000) under assumptions of both equal and unequal variances.

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PHASE 2: HYPOTHESES TESTING

Sample. We administered our second survey instrument to 138 business undergraduates and graduates in a medium-sized private university in the southeastern United States: 66 students received the vignette describing a small firm, while 72 students received the vignette describing the large firm. The mean age of the respondents was 24.8 years, 57% were male, and 75% were undergraduate students.

Organizational attractiveness measure. Organizational attractiveness was assessed using the instruments created by Highhouse, Lievens, and Sinar (2003). This instrument consists of 15 statements measuring three dimensions of organizational attractiveness: general organizational attractiveness, intentions to pursue a job at the organization, and company prestige. Participants responded to the 15 items using a 5-point Likert-type response scale anchored by 1 = strongly disagree and 5 = strongly agree. We collapsed the 15 items into three variables representing the means, and then collapsed the three means into a single mean representing overall organizational attractiveness, which is the dependent variable in the present study. The Cronbach’s alpha coefficient for overall attractiveness was .91, suggesting high levels of internal consistency reliability.

Big 5 personality measure. Personality was measured using a 44-item assessment of the five domains of the Five Factor Model of Personality (John & Srivastava, 1999). The assessment uses an “I see myself as someone who” anchor for the 44 items. The participants then rate the extent to which they agree or disagree with the statement based on a 5-point response scale where 1=strongly disagree, 2=somewhat disagree, 3=neither agree nor disagree, 4=somewhat agree, and 5=strongly agree. Each of the five personality variables is captured in 8 to 10 items and we used the mean score of each to derive the five personality domains. The Cronbach’s alpha coefficients demonstrating internal consistency for the personality variables were as follows: Agreeableness .78; Conscientiousness .80; Extraversion .84; Neuroticism .78; and Openness to Experience .77.

RESULTS

Table 1 presents the means, standard deviations, and correlations of the study variables of the 72 respondents who were administered the survey instrument describing large firms. Table 2 presents the same descriptive statistics for the 66 students administered the small firm survey instrument.

Table 1: Large Firm Descriptive Statistics and Correlations

<table>
<thead>
<tr>
<th></th>
<th>Means</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<td>1</td>
<td>Overall organizational attractiveness</td>
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<td>.59</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Agreeableness</td>
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<td>.30*</td>
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<td>Conscientiousness</td>
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<td>.30*</td>
<td>.51**</td>
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<td>.32**</td>
<td>.49**</td>
<td>.41**</td>
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<td>Neuroticism</td>
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<td>-.48**</td>
<td>-.43**</td>
<td>-.44**</td>
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<td>Openness to Experience</td>
<td>3.74</td>
<td>.54</td>
<td>.03</td>
<td>.28*</td>
<td>.37**</td>
<td>.41**</td>
</tr>
</tbody>
</table>

n = 72
* p < 0.05 (2-tailed); ** p < .01 (2-tailed)
Significant correlations in Table 1 and Table 2 suggest that personality relates differentially to overall organizational attractiveness perceptions. For respondents administered questionnaires about a large firm, those who considered themselves agreeable, conscientious, emotionally stable, and extraverted considered the firms attractive. For those administered the small firm manipulation, those with low levels of conscientiousness and those with higher levels of openness to experience considered small firms attractive.

We next conducted an independent samples t-test to determine whether differences in the means of the organizational attractiveness variable varied as a function of the size of the organization. Mean differences were significant $F = 6.76$, $df = 136$, $p < .01$. Specifically, respondents rated the organizational attractiveness of large firms significantly higher ($M = 4.01$) than respondents rated the organizational attractiveness of small firms ($M = 3.10$).

These results suggest that both personality and size impacted perceptions of organizational attractiveness, so we conducted an analysis of the moderating impact of the cross-product of the personality and size variables by following the hierarchical regression approach used by Lievens et al. (2001). To determine whether to use control variables in our analyses, we checked the significance of the relationship between overall organizational attractiveness and gender, age, graduate or undergraduate level, and whether respondents were employed. Results indicated that these demographic variables were not significant predictors of organizational attractiveness, so we excluded them from further analyses for parsimony.

In the first step of the hierarchical regression, we created a dummy variable for organizational size by coding the surveys describing the large firms with ones and the surveys describing the small firms with zeros. We entered the large firm dummy variable at this step. In the second step, we entered the five personality domains: extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience. In the third step, we entered the cross-product terms of the personality x the large firm dummy variables. We standardized the independent variables prior to creating the cross-product terms to avoid problems of multicollinearity following the instructions of Aiken and West (1991) and Jaccard, Turrisi, and Wan (1990). Table 3 presents the results of our analyses.

<table>
<thead>
<tr>
<th>Table 2: Small Firm Descriptive Statistics and Correlations</th>
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<tbody>
<tr>
<td>Means</td>
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<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
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<td>2</td>
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<td>3</td>
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<td>4</td>
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<td>5</td>
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<td>6</td>
</tr>
</tbody>
</table>

n = 66

* $p < 0.05$ (2-tailed); ** $p < .01$ (2-tailed)
Table 3: Regression of Hierarchical Regression Analyses of Interaction Effects between Organizational Size and Personality (Standardized Variables)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Equation 1</th>
<th></th>
<th>Equation 2</th>
<th></th>
<th>Equation 3</th>
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<tbody>
<tr>
<td></td>
<td>b</td>
<td>s.e</td>
<td>b</td>
<td>s.e</td>
<td>b</td>
<td>s.e</td>
</tr>
<tr>
<td>Constant</td>
<td>3.10*** .09</td>
<td></td>
<td>3.11*** .09</td>
<td></td>
<td>3.08*** .08</td>
<td></td>
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<tr>
<td>Firm size (large firm)</td>
<td>.91*** .12</td>
<td></td>
<td>.89*** .12</td>
<td></td>
<td>.88*** .11</td>
<td></td>
</tr>
<tr>
<td>Personality domains</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Agreeableness</td>
<td></td>
<td></td>
<td>.13 .08</td>
<td></td>
<td>.19 .11</td>
<td></td>
</tr>
<tr>
<td>Conscientiousness</td>
<td>-.16* .07</td>
<td></td>
<td>-.41*** .10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extraversion</td>
<td>-.01 .07</td>
<td></td>
<td>-.12 .08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neuroticism</td>
<td>.01 .07</td>
<td></td>
<td>.10 .09</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Openness</td>
<td>.11 .06</td>
<td></td>
<td>.25** .09</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Interactions</td>
<td></td>
<td></td>
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<tr>
<td>Firm size x Agreeableness</td>
<td></td>
<td></td>
<td>-.13 .14</td>
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<td></td>
</tr>
<tr>
<td>Firm size x Conscientiousness</td>
<td></td>
<td></td>
<td>.52*** .13</td>
<td></td>
<td></td>
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<tr>
<td>Firm size x Extraversion</td>
<td>.27* .13</td>
<td></td>
<td></td>
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<tr>
<td>Firm size x Neuroticism</td>
<td>-.12 .13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm size x Openness</td>
<td>-.35* .12</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>R²</td>
<td>.30***</td>
<td>.34</td>
<td>.49***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>57.68</td>
<td>11.25</td>
<td>10.84</td>
<td></td>
<td></td>
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<tr>
<td>Df</td>
<td>1,136</td>
<td>6,131</td>
<td>11,126</td>
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<td></td>
</tr>
<tr>
<td>R² change</td>
<td>.04</td>
<td>.15***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F change</td>
<td>1.67</td>
<td>7.17***</td>
<td></td>
<td></td>
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</tbody>
</table>

*a To interpret the a priori standardized variables, the b coefficients in this table are unstandardized regression coefficients (Aiken & West, 1991).

*p < .05; ** p < .01; *** p < .001

As shown in Table 3, in the first step, firm size (large firm) explained 30% of the variation in the regression equation $F (1, 136) = 57.68, p < .001$. The personality domains entered in the second step were responsible for an additional 4% of variance. $F (6, 131) = 11.25, p > .05$, n.s. Together, firm size and the personality domains explained 34% of the variance in overall organizational attractiveness. In the third step, the hypothesized interaction terms significantly increased the variance by 15% to 49% $F (11, 126) = 10.84, p < .001$.

A closer inspection of the interaction terms and correlational patterns reveal support for hypotheses 1, 3 and 5. Specifically, in partial support of hypothesis 1, our results indicated that organizational size significantly moderated the effect of extraversion on organizational attractiveness ($b = -.14, p < .05$). Contrary to our proposed hypothesis that extraverted individuals would consider small firms attractive, results suggest that they instead consider large organizations attractive ($R = .32, p < .01$). In support of hypothesis 3, conscientiousness significantly moderated the effect of organizational size on organizational attractiveness ($b = -.26, p < .001$). Respondents with high levels of conscientiousness find large organizations attractive ($R = .30, p < .05$), while those with low levels of conscientiousness find small organizations attractive ($R = -.45, p < .01$). In support of hypothesis 5, openness to experience significantly moderated the effect of organizational size on organizational attractiveness ($b = .18, p > .01$) such that respondents with higher levels of openness to experience find small organizations attractive ($R = .25, p < .05$).
Figures 1, 2, and 3 provide interaction plots of the significant regression equations, providing additional support for the directionality of our proposed relationships.

**Figure 1: Interaction Plot of Organizational Attractiveness as Outcome, Extraversion as Independent Variable, and Firm Size as Moderating Variable**

**Figure 2: Interaction Plot of Organizational Attractiveness as Outcome, Conscientiousness as Independent Variable, and Firm Size as Moderating Variable**
DISCUSSION AND IMPLICATIONS

Traditional human resource management practices emphasize matching the knowledge, skills, and abilities of job applicants to the job requirements, yet CEO/founders of small organizations often focus instead on whether the applicants “fit” in with the organizational culture (Heneman et al., 2000). The personality of the job applicants is likely to influence these perceptions of fit. Furthermore, personality has substantial validity and utility in predicting behavior in organizational settings (Ones, Viswesvaran, & Dilchert, 2005), so making hiring decisions based on applicants’ personalities is a valid HRM practice. Organizations, both large and small, benefit from a large pool of qualified applicants with the types of personalities consistent with efficiency and effectiveness in job performance.

Accordingly, the purpose of the present study was to investigate the organizational size preferences of potential job applicants and determine whether personality plays a moderating role in the relationship between organizational size and overall organizational attractiveness. We found support for two of our hypotheses suggesting that respondents with higher levels of conscientiousness find large organizations attractive, while those with higher levels of openness to experience find small organizations attractive. Interestingly, we further found two unhypothesized relationships warranting further investigation. Specifically, we found that potential job applicants with low levels of conscientiousness find small organizations attractive, while those with higher levels of extraversion find large firms attractive. While the latter finding is in support of hypothesized relationships in previous studies (e.g., Lievens et al., 2001), the former finding is intriguing, particularly considering that conscientiousness is the strongest personality predictor of job performance overall (Barrick et al., 2001). Meta-analytic research has found strong support for the validity of conscientiousness in the prediction of overall job performance, objective performance indices, and task performance (Ones, Dilchert, Viswesvaran, & Judge, 2007). Therefore, potential job applicants with low levels of conscientiousness who are characterized by laziness and a weak work ethic are likely to perform at substandard levels. Hiring such applicants could be disastrous to entrepreneurial organizations seeking “high-potential employees that can perform
multiple roles under various stages of organizational growth” (Heneman et al., 2000, p. 11). Perhaps these findings offer a partial explanation for the well-recognized high failure rates of small firms. Future studies should examine these relationships in other populations and with different types of firms to determine generalizability.

RESEARCH LIMITATIONS

This research extended studies on organizational attractiveness from the MBA population to the larger undergraduate population of business majors. However, even this population is small compared to the number of students graduating from universities and colleges each year, so generalizability of our results is called into question. Do the results in this study also hold true for all college graduates? Daniel Pink (2006) predicts that business students will become the blue collar workers of the 21st century because of their linear thinking and focus on data analysis, whereas those with art degrees will be the most sought-after employees in the business world because of their ability to think and express themselves creatively. Whether this prediction bears out or not, this question carries merit. Both small and large businesses hire employees with backgrounds in the humanities, social sciences, and sciences in addition to those with business degrees.

Another limitation of this study is the characteristics that were used to contrast small versus large organizations. As already noted, the vignettes used in this study were based on Cardon and Stevens’ (2004) research on the ways that human resources policies and practices differ in large versus smaller firms. Nonetheless, business students might have attributed other characteristics to the companies based on the vignettes in addition to size. For example, they may have seen the 4-year old start up as more entrepreneurial. Would student responses have been different if the smaller company had been established for 25 years? Would it have been different if the larger company had been a high-tech company or one with an organic organizational structure? Future research needs to tease out these additional, potentially moderating attributes.

A third limitation relates to the use of potential job applicants’ self-reports of personality and the corresponding potential for bias in responses. This potential may have been mitigated by the assurances of anonymity and group data analyses from the survey administrators, yet still poses a concern. One recent meta-analysis found that ratings of personality from significant others (such as peers) were more valid than self-reported ratings of personality (Connelly & Ones, 2010). Future studies should assess candidates’ personality from multiple sources, such as from qualified peers.

Recent evidence suggests that extremely high or low scores on various dimensions of the Big Five personality instrument may relate to performance in counterintuitive ways. As an example, McCrae (1994) suggests that “over-conscientiousness” corresponds to compulsiveness, a lack of spontaneity, rigidity, workaholism, and excessive tidiness. Such traits may negatively impact performance. To determine whether over-conscientiousness plays a role in predicting organizational attractiveness, we conducted an ad hoc analysis. We examined results from independent samples t-tests for the over-conscientious respondents (whose scores exceeded 1 standard deviation or more beyond the mean score) in the two groups administered the large and small organization vignettes in the prediction of organizational attractiveness. Mean differences were not significant for the over-conscientious respondents administered the large organization vignette, but they were significantly lower for the 14 over-conscientious respondents administered the small organization vignette. In other words, over-conscientious respondents considered the small organizations more unattractive than their slightly less or much less conscientious counterparts. If these 14 respondents are indeed overly compulsive and exhibit the other excessive personality traits identified by McCrae (1994), such potential job applicants would not be desirable in large or small organizations. Future research should further examine these relationships using personality instruments specifically designed to capture obsessive compulsive behaviors.
CONCLUSION

The results of our study provide some evidence that large organizations have yet another competitive advantage in the attraction of the most desirable human capital: potential job applicants with high levels of extraversion and conscientiousness find larger organizations to be attractive. Extraverts are positive, social, enterprising individuals who may likely become transformational leaders and change agents, while conscientious individuals are dutiful, achievement-striving, and competent. Such skills are likely to be appealing across a wide variety of work settings.

While small organizations may attract individuals who are open to experience, they may also attract those with low levels of conscientiousness. If such organizations have more than 15 employees and are based in the United States, terminating low performers may require extensive preparation and documentation to ensure that the termination is performance-related and not discriminatory. Even organizations in “at will” states (in which they can hire and fire “at will”) in the U.S. are subject to the scrutiny of the Equal Employment Opportunity Commission when making selection, promotion, compensation, and termination decisions. Similar laws and regulations exist all around the globe, particularly in heavily unionized environments such as in many countries of Europe. For these reasons and more, organizations seeking to improve their performance by selecting the best human capital should ensure that they are using appropriate and validated selection tools. Like intelligence tests, personality instruments provide high utility (high validity in the prediction of performance and low cost), yet unlike intelligence tests, personality instruments do not adversely impact members of under-represented groups (see Outtz, 2009). Therefore, assessing the personalities of job applicants using validated instruments is recommended for organizations of all sizes seeking to identify employees who best fit their strategic needs.

REFERENCES


APPENDIX

Experimental Manipulation of Large vs. Small Organization

Large organization: You have been considering a job with an established company in the Tampa Bay area. This company has been in business for over 30 years. You have a clear idea of what will be expected from you in this job as the requirements and expectations are very clear and detailed. It is unlikely that you will be required to do more than the specific definition of your job. The company also has a formal training program in which you will be enrolled. The interview process at this company has been long and very formalized. You have interviewed with both people in the HR department and the area where you will work. The company also has work-life balance policies that ensure employees are able to balance their work with their life. There are many corporate levels above where you will be entering the company and the structure in place for appraising performance and promotions is detailed.

Small organization: You have been considering a job with a relatively new company in the Tampa Bay area. This company has been in business for 4 years. Your job is not well-defined and you will have the opportunity to do a variety of work as needed. You will definitely not be constrained by what you majored in during college. There is no formal training program and all training will be on-the-job. You interviewed with the company’s founder and the person you will report to. There is no HR department at this company and few, if any, formal HR policies. There does not seem to be any clear structure or policies for appraising performance and awarding promotions. Employees work long hours and seem to do so willingly. The company structure is very flat and you will be working alongside the founder, who is also the Chief Executive Officer, and other top managers such as the Chief Operating Officer and heads of the marketing, development and finance areas.
Determinants of Business Climate Perceptions in Small and Medium-Sized Enterprises: Does Managerial Ownership Matter?

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University of South Alabama

Melanie P. Lorenz
University of Alabama

David L. Turnipseed
University of South Alabama

K. Mark Weaver
University of South Alabama

This study examines the relationships between entrepreneurial orientation (EO), firm performance, and perceptions of business climate perceptions (BCP) in small- and medium-sized enterprises. Analysis of the relationships also involves assessing to what extent agency effects may cause differences in BCP by owner managers and non-owner managers. The samples for this study were 461 owner managers and 281 non-owner managers of businesses employing less than 250 people in “hurricane-affected” parishes in central Louisiana. The sample firms were selected (every 10th firm) from licensed businesses and the data collected by a telephone survey conducted by the LSU Office of Institutional Research. This survey was sponsored by Shell Oil Company.

Full sample results found a positive association between BCP and overall performance, while favorable BCP was negatively associated with sales growth and risk taking. The results of the study found similar associations between EO, firm performance, and BCP in both owner managed companies and non-owner managed firms, although risk aversion and overall performance were more strongly associated with favorable BCP in the non-owner manager sub-sample and revenue stability had a stronger relationship with BCP in the owner manager sub-sample. The results of the study found that managers who had pursued less risky strategies had more favorable views of the business climate during challenging economic conditions. Also, the similar attitudes of non-owner managers and owner managers concerning the business climate suggest that the interests of non-owner managers and owners are relatively well aligned in this sample of externally controlled SMEs.

The extent to which non-owner managers and owner managers have similar views about the business environment, competitive conditions, and strategic issues facing a business is of interest since many investors in small and medium-sized enterprises (SMEs) are unable to manage the business themselves. Many entrepreneurs have investments in a number of businesses or lack certain operating expertise needed in a particular business and, by necessity, are required to contract with non-owner agents to manage the company’s operations. Business owners who have ceded control of day-to-day operating decisions to agent managers are best served when contract terms and monitoring create consistent views of situational factors, risk acceptance, and decision making behavior between owners and non-owner managers. Agency theory has examined this dispersion of ownership and control. The agency problem, as described by Ross (1973) and Eisenhardt (1989), constitutes a misalignment of interest between an agent acting as a representative of a principal. This misalignment primarily arises from divergent goals and information asymmetries as the agent’s behavior, as well as personal intent, cannot be fully known and controlled by the principal whereas the principal bears the risks and gains the residual compensation (Ross, 1973; Davies & Prince, 2010). Monitoring expenditures incurred by the principal, moral hazard, bonding expenditures incurred by the agent, as well as residual losses are the most common agency costs emerging from the described dispersion (Jensen & Meckling, 1976; Shapiro, 2005). This study examines the relationships between entrepreneurial orientation (EO), firm performance, and perceptions of business climate perceptions (BCP) in SMEs. Analysis of the relationships also involves assessing the extent to which agency effects may cause differences in BCP by owner managers and non-owner managers.
The local business climate is among the various factors that influence the success of many SMEs and shapes entrepreneurial intentions to launch new ventures in a community. Two facets of BCP by the owner managers and non-owner managers of SMEs were examined in this study - perceived institutional support and perceived community support. Perceived institutional support included views on the supportiveness of entrepreneurial businesses by bankers and investors, local government and policy, groups and organizations, and media. Perceived community support was assessed by the extent to which the owner managers and non-owner managers of SMEs believed business people were viewed as positive role models in the community.

It is expected that BCP will be associated with the EO of the owner manager or non-owner manager of the SME and that those respondents with higher levels of EO will have more favorable views of the business climate. In addition, it should be expected that owner managers and non-owner managers of businesses with higher levels of performance would have more favorable views of the business climate. Agency theory predictions about the effects of monitoring and contracts suggest that the BCP of owner managers and non-owner managers will be similar.

**THEORETICAL FOUNDATIONS**

For a variety of reasons, it is sometimes neither efficient nor practical for owners of SMEs to actually manage their businesses. In such cases, it is indispensable for the owner to have the option of contracting with an agent to make day-to-day decisions regarding the SMEs’ operations and expenditures. Depending on the owner’s circumstances and the scope and the size of the organization, the agent’s control may even be extended to long-term strategic and financial decisions.

It should be expected that the priorities and objectives of agents and owners may differ based upon divergent interests (Dalton, Hitt, Certo, & Dalton, 2007). Excessive agency costs can arise when agents are free to pursue a course of action that maximizes the agent’s personal utility instead of company performance (Ross, 1973). While agents may possess managerial control over a non-owner managed SME, owners are able to minimize agency costs through contracts and monitoring that effectively aligns the interests of owners and agent-managers (Eisenhardt, 1989).

Agency theory has examined this dispersion of ownership and control. The agency problem, as described by Ross (1973) and Eisenhardt (1989), constitutes a misalignment of interest between an agent acting as a representative of a principal. This misalignment primarily arises from divergent goals and information asymmetries as the agent’s behavior, as well as personal intent, cannot be fully known and controlled by the principal whereas the principal bears the risks and gains the residual compensation (Ross, 1973; Davies & Prince, 2010). Monitoring expenditures incurred by the principal, moral hazard, bonding expenditures incurred by the agent as well as residual losses are the most common agency costs emerging from the described dispersion (Jensen & Meckling, 1976; Shapiro, 2005). To overcome the differences in goal attainment and reduce costs associated with it, the two parties can enter into a contract of mutual satisfaction. This contract provides incentives for the agent to achieve the goals of the principal (Jensen & Meckling, 1976). Yet, although a growing body of empirical research fails to support the explanatory power of agency theory (Dalton, Hitt, Certo, & Dalton, 2007; Ghosal, 2005), and in its focus on economic self-interests is suggested to be inconsistent with the behavioral assumptions of agents as viewed in most theories of organization (Lubatkin, 2005), agency problem is seen as real and intractable (Lan & Heracleous, 2010).

Considering the different types of control in a firm, the principal-agent relationship as well as the extensiveness of the agency problem might vary. In particular, systematic differences between owner-manager and management-controlled firms in regard to risk propensities are apparent and are specified by McEachern’s taxonomy in the following:
RISK AND CONTROL IN SMES

McEachern (1975) created a taxonomy to describe the different states of control in a firm. Three ownership categories are classified:

1. Owner-managed: the owner both operates and controls the firm;
2. Externally-controlled: an individual with no ownership manages the firm but is closely monitored by owners or dominant stockholders possessing a majority of the firm’s shares;
3. Manager-controlled: the manager both operates and controls the firm with no stockholder possessing a dominant position among external shareholders.

The manager of an owner-managed SME’s willingness to accept risk is dependent on and positively related to his/her anticipation of future returns (Black & Scholes, 1973). Owner-managers recognize that high risk strategies can result in the opportunity for greater personal wealth. This risk-seeking behavior is further supported by the likelihood that the owner-manager’s job security is not subject to evaluation by outside stockholders (McEachern, 1975). The peril of insolvency; however, impacts and limits the owner-manager’s risk strategy (Jones & Butler, 1992).

Control of agency problems as such should have less impact on owner-managers because of the shared interests of principals and agents (Ang, Cole, & Lin, 2000; Jensen & Meckling, 1976). However, professionalization and practical applications denotes that owner-managers will delegate authority to middle level managers who are not necessarily owners (Hofer & Charan, 1984). Thus, professionalization can lead to agency problems when private companies are externally-controlled (Chua, Chrisman, & Bergiel, 2009).

Managers of externally-controlled SMEs are inclined to tolerate levels of risks that are only as great as that acceptable to the owner of the manager-controlled SME. Unlike a portfolio-balancing investor, an owner of a SME is most likely the dominant stockholder of the SME and may have a large portion of his/her funds invested in the firm (McEachern, 1975). Hence, due to a personal vulnerability to poor firm performance, the dominant shareholder will increase his/her active role in the firm to verify the agent’s behavior and to cause changes in management aiming to improve performance (Eisenhardt, 1989). Accordingly, they are willing to replace executives more frequently when performance declines (Salancik & Pfeffer, 1980). Considering agency theory, as the majority of a manager’s human capital is tied to the firm, as well as his/her work and income largely dependent upon firm performance, he/she will not be willing to participate in uncertainties of entrepreneurial activities which influences the factor of risk-bearing (Denis, 2001; Larraza-Kintana, Wiseman, Gomez-Mejia, & Welbourne, 2007; Jones & Butler, 1992).

In conclusion, the risk acceptance/avoidance behavior of owner-managers and managers of externally-controlled firms tend to be similar. The third category, manager-controlled firms, although part of McEachern’s taxonomy, is not further discussed due to its non-applicability in the current sample.

RESEARCH PROPOSITIONS AND HYPOTHESES

The hypotheses of this study suggest that business climate perceptions are related to the entrepreneurial orientation of the firm’s managers and firm performance. It is also expected that the business climate perception/entrepreneurial orientation relationship will vary among respondents in owner managed firms and managers in externally controlled firms.
ENTREPRENEURIAL ORIENTATION

Various factors affect why a company may outperform or underperform its rivals, including disparate affects of competitive forces, the relative competitive power of its internal resources and capabilities, or timing. In addition, the entrepreneurial orientation of a company may contribute to its success in the marketplace.

In general, EO refers to a firm’s propensity towards entrepreneurship as reflected in managerial decision-making, policies and procedures, and organizational culture. Although EO has been widely examined since Miller’s originating article in 1983, it remains a construct that is not uniformly defined (Covin & Lumpkin, 2011). According to George and Marino (2011), the lack of consistency in defining the construct is particularly problematic in its nature and descriptions, which essentially relates to its dimensionality, the range of organizational processes, and the relationship between EO and its dimensions.

Yet, based on the discussion by Miller (1983, 2011), EO is a firm-level construct, defined by the propensity of a company’s top management to take calculated risks, engage in product-market innovation, and exhibit strategic proactiveness by exploiting market opportunities. As such, EO indicates how a firm operates rather than what it does or the industry it competes in (Lumpkin & Dess, 1996). The conceptualized elements risk-taking, innovativeness, and proactiveness are derived from a scale of 11 entrepreneurial dimensions of strategy discussed by Miller and Friesen (1978). Covin and Selvin (1989) amplified the scholarly acceptance of the EO construct with development of a nine-item scale of the EO construct built on the initial work of Miller (1983) and Khandwalla (1976).

The EO theorem development has distilled to two distinctive views: the unidimensional view of EO based on the work of Miller (1983) and Covin & Slevin (1989) and the multidimensional view conceptualized by Lumpkin and Dess (1996). “In the unidimensional view of EO, the latent construct is understood to exist only to the extent that risk taking, innovativeness, and proactiveness are concurrently manifested by the firm” (Covin & Lumpkin, 2011) and if one or more of these elements are not persistent, the company cannot be considered entrepreneurial (Miller, 2011). Lumpkin and Dess in 1996, introduced the multidimensional or five-dimension approach, which manifests EO as a “superordinate construct with the dimensions of risk taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy” (Covin & Lumpkin, 2011).

In contrast to the unidimensional view, the multidimensional view does not restrict entrepreneurial behavior to the situations where all three dimensional requirements are fulfilled. While all five dimensions are significant in the entrepreneurial process, one or a combination of some might be more important depending on the strategic orientation, the lifecycle stage, the economic conditions, or the type of opportunity a company pursues (Lumpkin & Dess, 1996). Though there is disagreement about the dimensionality of the EO construct, numerous studies support the reliability and validity of both the unidimensional and the multidimensional views (e.g., Wiklund, 1999). As both approaches are widely accepted, this study focuses on the five-dimensional conceptualization suggested by Lumpkin and Dess (1996).

RISK TAKING

Risk taking refers to a company’s willingness to deal with uncertainty and commit significant resources to opportunities with reasonable and costly chances of failure (Miller & Friesen, 1978). Busenitz (1999) theorizes that entrepreneurs, in contrast to non-entrepreneurs, have a more favorable view of business conditions/situations and hence, according to Palich and Bagby (1995), tend to categorize business situations as such as less risky.
INNOVATIVENESS

Innovativeness is a company’s propensity to engage in and support new ideas, processes, and knowledge resulting in novel products, services, and a competitive advantage over rivals (Lumpkin & Dess, 1996). Based on Covin and Miles (1999), innovation is the most critical factor for defining entrepreneurship.

PROACTIVENESS

Proactiveness reflects the scope to which a firm anticipates and acts on future demands (Lumpkin & Dess, 1996; Miller & Friesen, 1978). The activities planned ahead may not be related to current operations, but might refer to expected future or latent customer needs, and changes in the company’s internal as well as external environment. Besides product innovation, diversification or new market entry, proactiveness can also include “strategically eliminating operations which are in the mature of declining stages of the life cycle.” (Venkatraman, 1989, p. 949).

COMPETITIVE AGGRESSIVENESS

Competitive aggressiveness relates to the ways a firm responds to threats and challenges in its intermediate external environment. Hence, it is about challenging competitors in an effort to improve relative performance (Lumpkin & Dess, 1996). The goal is often an increase in market share, aggressive prices or advertising competition (Vilcassim, Kadiyali, & Chintagunta, 1999) or innovation (Banbury & Mitchell, 1995).

AUTONOMY

Autonomy refers to the need for independence for leaders and employees internally as well as externally to make key decisions independently, to pursue opportunities as well as realizing a vision or a novel idea (Lumpkin & Dess, 1996). According to Miller (1983), the most entrepreneurial firms had the most autonomous leaders.

Previous studies on the interrelation between EO and the business environment have established a relationship between entrepreneurial perceptions and the strategic posture, such as innovativeness, risk taking, proactiveness, competitive aggressiveness, and autonomy (Lumpkin & Dess, 1996). As perceptions and the environment tend to influence EO, EO is inclined to influence the business climate perception, such that entrepreneurs high in EO perceive the business climate more favorably.

H1: Entrepreneurial orientation will be positively associated with business climate perceptions by both owner managers and non-owner managers of SMEs.

BUSINESS CLIMATE PERCEPTIONS

The local business climate has major implications for the success and growth potential of entrepreneurial businesses and SMEs. In general, the local business climate is comprised of local government policies and regulations, financing available for local businesses, local educational institutions, local media, local community groups and organizations that support SMEs, and local values that may or may not recognize and champion entrepreneurs as role models. Because the local business climate has such important bearing on the success of local businesses, the perceptions of the business climate by the owners and managers of SMEs should be expected to shape strategic and operating decisions at such firms. In addition, BCP may be shaped by internal characteristics of the entrepreneur such as their propensity to accept risk, proactiveness, commitment to innovation, competitive aggressiveness, and desire for autonomy. Also, it should be expected that the ownership level, control over decision-making, and personal exposure to risk will affect business climate perceptions by business owners and managers.
Although broadly used, the term “business climate” is not clearly defined in the current literature; however, Bittlingmayer, Eathington, Hall & Orazem (2005) provide a comprehensive definition by referring to it as “the local economic conditions that foster or retard the birth or growth of firms” (p. 1). According to the International Economic Development Council’s Reference Guide (2012), “a good business climate ultimately allows businesses to conduct their affairs with minimal interference while accessing quality high inputs and customers at low costs”. A favorable business climate is hence inevitable for and related to economic growth and prosperity (Drucker, 1999; Henderson & Robertson, 2000). Referring to the influences of business climate, the numerous factors can be categorized into perceived institutional support, and perceived community support. This framework is basis for the current study.

PERCEIVED INSTITUTIONAL SUPPORT (BCP I)

Bankers and investors. Access to and availability of funding is crucial and a major obstacle for entrepreneurial businesses in every stage of their lifecycle (Bitzenis & Nito, 2005; Chatman, Altman, & Johnson, 2008). The perception of the local business climate is therefore highly dependent on this factor. Financial support can influence an entrepreneur’s choice of a local community to locate a business or even whether to pursue a new venture. According to Liguori, Maurer, Bendickson and Weaver (2012) it is indispensable for a community to understand the needs and the challenges entrepreneurs face in regards to financing a SME. Crane and Meyer (2006) suggest that lack of seed money, lack of venture capital, and lack of angel investors can be major obstacles to entrepreneurial development. This is supported by Velazquez, Moore and Dahlkemper (2009) who emphasize the problems related to this to the variety of financial impediments. Hence, inadequate efforts by community leaders to enhance financing opportunities for SMEs can hinder the development of positive business climate perceptions among owners and managers of SMEs, whereas local communities who can create an environment of support and availability of local financial might see a rise in venture growth and creation (Liguori, et al., 2012).

LOCAL GOVERNMENT AND POLICY

Local governments can damage perceptions of the local business climate with the passage and implementation of numerous or overly burdensome policies; whereas owners and managers of SMEs welcome ample financing opportunities, decision makers in these businesses tend to value the lower levels of government interference in the local business environment (Dennis, 2006). However, there are many policies a local government can implement to support, promote, and attract business ventures. For example, low state and local taxes, and cooperative relationships are among the various possibilities to create a successful business climate (Plaut & Pluta, 1983). Active interaction and communication between government officials and its entrepreneurs is furthermore influencing whether a community is perceived entrepreneurial (Birch, Haggerty, & Parsons, 1999).

Keating (2011) suggests that economic growth and job creation is impaired by a disproportionate amount of governmental burdens. Although policymakers may limit the maximization of new ventures because of conflicting goals, they have the power and tools to contribute to a positive business climate (Campbell, Heriot, Jauregui, & Mitchell, 2012). Policies that focus on stable communities and adaptability to technological and economic changes seem to be positively related to new opportunities and sustainable growth. Accordingly, while challenges tend to be numerous and significant, the local government can produce a supportive atmosphere and provide the basis for venture growth by positively shaping the local business climate, at least in the long-run.
COMMUNITY GROUPS AND ORGANIZATIONS

Community groups such as local chambers, rotary, economic development, and social activist groups play a valuable role in creating a positive business environment (Dennis, 2006). Community involvement in the business climate is important for two reasons. First, social support in a community can encourage entrepreneurs to start a business or provide them with the feeling of feasibility and attainability (Krueger & Brazeal, 1994). And, secondly, community groups can support and collaborate with entrepreneurs to improve their access and availability of financial resources. Hence, according to Liguori et al. (2012), community groups present great opportunities by connecting business leaders and entrepreneurs to generate greater entrepreneurial activity.

MEDIA COVERAGE

The media takes a significant place in influencing the perception of the local business climate. In addition to providing news and coverage, it generates publicity and awareness for local entrepreneurs and increases engagement in the community. The media exposure can cast entrepreneurship in a positive, attractive light, leading to amplified support and legitimacy for entrepreneurial within the community (Liguori, et al., 2012).

While publicizing entrepreneurial success stories makes starting a business more feasible (Krueger & Brazeal, 1994) and more desirable, negative reporting in form of entrepreneurial failures or a perceived recessive business climate tend to deter potential entrepreneurs. Hence, the perception of the favorableness of the local business environment tends to be impacted, negatively or positively, by the media coverage on entrepreneurial business and the local business climate (Birch et al., 1999, Hustedde, 2007).

PERCEIVED COMMUNITY SUPPORT (BCP II)

Community support of entrepreneurs is to some extent determined by how entrepreneurs are viewed as role models in the community. Based on the research of Goetz (2008), individuals who start their own businesses are highly valued and admired for their determination, work ethics, drive and expertise in communities with positive business climates. The relationship between the emergence of new entrepreneurs and the presence of entrepreneurial role models is positively related (Shapero & Sokol 1982; Timmons, 1986; Matthews & Moser, 1995). In general, the embracing of entrepreneurs as role models within a community shapes the perception of the local business climate by owners and managers of SMEs.

Overall, there are many opportunities for governments, bankers, communities, and media to positively shape the BCP. Yet, besides these external factors, the respective BCP is suggested to be influenced by the entrepreneur’s current success. Whereas, entrepreneurs’ in high-performance firms tend to perceive the business climate as more favorable, underperforming firms are inclined to attribute their low performance to its weakness. Hence, a weak business climate might not only dampen investments and emergence of new ventures but also encourage market exits.

H2: Firm performance will be positively associated with business climate perceptions by owner managers and non-owner managers of SMEs.

As discussed in the beginning of this study, many investors in small and medium-sized enterprises are unable to manage the businesses themselves. Accordingly, agency theory was applied and it was suggested that business owners who have ceded control of day-to-day operating decisions to agent managers are best served when contract terms and monitoring create consistent views of situational
factors, risk acceptance, and decision making behavior between owners and non-owner managers. Based on the prior theoretical analysis and due to the interrelation between BCP and EO as well as the control structure, agency effects tend to be reduced.

H3: The relationship between entrepreneurial orientation and business climate perceptions for owner managers and non-owners will be consistent since externally controlled firms are closely monitored by a dominant stockholder.

H4: The relationship between firm performance and business climate perceptions for owner managers and non-owners will be consistent since externally controlled firms are closely monitored by a dominant stockholder.

METHODOLOGY

SAMPLE AND PROCEDURES

The sample for this study included 461 owner managers and 281 non-owner managers of businesses employing less than 250 people in “hurricane-affected” parishes in central Louisiana. The sample firms were selected (every 10th firm) from licensed businesses and the data collected by a telephone survey conducted by the LSU Office of Institutional Research. This survey was sponsored by Shell Oil Company.

The Pearson product-moment correlation coefficients (r) among the study variables were calculated for both samples and the combined group. Hierarchical multiple regression analysis was used to identify the incremental contribution of the control variables, entrepreneurial orientation, and organizational performance metrics to the variance in the dependent variables, perceived institutional support and perceived community support. Expecting shared variance among the study variables, sector, size, and industry were entered as control variables in Step 1. The entrepreneurial orientation variables were entered in Step 2, and the performance metrics were entered in Step 3.

MEASURES

Business climate perception was measured along two dimensions, institutional support (BCP I) and perceived community support (BCP II). The independent variable, entrepreneurial orientation, was measured with the five dimensional EO measure developed by Lumpkin & Dess (1996). The five dimensions are risk-taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy. The performance measures used were sales growth, overall performance of the business, and performance relative to the industry.

RESULTS

CORRELATION ANALYSIS

The Pearson’s r correlation matrices for the full sample and sub samples of non-owner managers and owner managers are presented in Tables 1, 2, and 3.

HIERARCHICAL REGRESSION ANALYSIS

Full sample results of the hierarchical multiple regressions for institutional support (BCP II), Step 1, indicate the control variables of sector ($\beta = .095; t = 1.99; p < .04$) and industry ($\beta = .002; t = 2.05; p < .04$) produced an $R^2$ of 1.68. Step 2, adding the EO dimensions of innovation, proactiveness, risk-taking, and autonomy did not produce a significant contribution. In Step 3, sales growth ($\beta = -.75; t = -3.61; p < .003$) and overall performance ($\beta = .088; t = 2.36; p < .01$) produced an $R^2$ of 9.5. The overall model ($F = 4.06; p < .001$) indicates that sales growth and overall performance account for about 10% of the variance in institutional support (See Table 4).
The full sample results for perceived community support (BCP II), Step 1 included only the control variable industry (β = .002; t = 2.01; p < .04), and produced an $R^2$ of 1.1. In Step 2, risk taking (β = -.07; t = -2.57; p < .01) was the only significant EO independent variable, contributing an $R^2$ of 1.9 to the model. In Step 3, sales growth (β = -.04; t = -2.05; p < .02) and overall performance (β = .07; t = 2.11; p < .03) contributed an $R^2$ of 4.46, producing an overall model $R^2$ of 7.5 ($F = 3.2; p < .0003$). The full sample results for BCP II are also presented in Table 4.

Non-owner managers’ results for BCP I produced a model in which none of the independent variables were significant: thus H1 and H2 were not supported. Entrepreneurial orientation and firm performance had no linkage with perceived institutional support. In the model for BCP II, the non-owner managers’ results revealed no significant relationship between the control variables, and perceived community support. In Step 2, risk-taking (β = -.10; t = -2.26; p < .025) was negatively linked to institutional support and produced an $R^2$ of 3.26 (see Table 5), also failing to support H1. Overall performance (β = .14; t = 2.29; p < .022) was positively related to institutional support and contributed an $R^2$ of 7.6 to the model, supporting H2 and contributing to the overall $R^2$ of 12.15 ($F = 1.91; p < .041$). The non-owner managers’ perceptions of community support increased as the overall performance of their firm increased.

Owner managers presented a slightly different profile than the non-owner managers. In the model for BCP II, in Step 1, none of the control variables were significant. Risk-taking in Step 2 was marginally and negatively significant (β = -.06; t = -1.94; p < .05) with an $R^2$ of 2.4, providing support for H1. Contrary to our hypothesis, risk taking behaviors (entrepreneurial orientation) were negatively linked with perceived institutional support. In Step 3, sales growth (β = -.06; t = -3.11; p < .002) was negatively linked to institutional support, and produced an $R^2$ of 8.7, failing to support H2, and producing a combined model $R^2$ of 11.6 ($F = 3.02; p < .0008$). Owner managers whose firms experienced increasing sales growth perceived reduced institutional support, contrary to the hypotheses – see Table 6. There were no significant relationships between perceived community support and the independent variables for the manager owner sample, thus H1 and H2 were not supported for owner managers.
Table 1: Correlation Matrix for the Full Sample

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<tbody>
<tr>
<td>Firm Size</td>
<td>-0.024</td>
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<tr>
<td>Innovation</td>
<td>0.002</td>
<td>0.097&lt;sup&gt;*&lt;/sup&gt;</td>
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<tr>
<td>Proactiveness</td>
<td>0.022</td>
<td>0.056</td>
<td>0.453&lt;sup&gt;†&lt;/sup&gt;</td>
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<tr>
<td>Competitive Aggressiveness</td>
<td>-0.040</td>
<td>-0.082</td>
<td>0.050</td>
<td>0.071</td>
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<tr>
<td>Risk Taking</td>
<td>0.027</td>
<td>0.002</td>
<td>0.298&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.352&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.138&lt;sup&gt;†&lt;/sup&gt;</td>
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<tr>
<td>Autonomy</td>
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<td>0.094</td>
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<tr>
<td>Sales Growth</td>
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<td>-0.100</td>
<td>-0.076</td>
<td>-0.158&lt;sup&gt;†&lt;/sup&gt;</td>
<td>-0.070</td>
<td>-0.083</td>
<td>-0.079</td>
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<tr>
<td>Overall Performance</td>
<td>-0.033</td>
<td>0.111&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.124&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.178&lt;sup&gt;†&lt;/sup&gt;</td>
<td>-0.051</td>
<td>0.130&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.051</td>
<td>-0.405</td>
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<tr>
<td>Relative Performance</td>
<td>-0.002</td>
<td>0.088</td>
<td>0.078</td>
<td>0.335&lt;sup&gt;†&lt;/sup&gt;</td>
<td>-0.062</td>
<td>0.090</td>
<td>0.022</td>
<td>-0.247&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.534&lt;sup&gt;‡&lt;/sup&gt;</td>
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<tr>
<td>Institutional Support</td>
<td>0.102&lt;sup&gt;‡&lt;/sup&gt;</td>
<td>0.031</td>
<td>0.002</td>
<td>-0.017</td>
<td>-0.065</td>
<td>-0.063</td>
<td>0.034</td>
<td>-0.232&lt;sup&gt;‡&lt;/sup&gt;</td>
<td>0.210&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.122&lt;sup&gt;‡&lt;/sup&gt;</td>
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<tr>
<td>Perceived Community Support</td>
<td>0.091</td>
<td>0.042</td>
<td>0.011</td>
<td>0.002</td>
<td>-0.026</td>
<td>-0.119&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.054</td>
<td>-0.159&lt;sup&gt;†&lt;/sup&gt;</td>
<td>0.164&lt;sup&gt;‡&lt;/sup&gt;</td>
<td>0.111&lt;sup&gt;‡&lt;/sup&gt;</td>
<td>0.628&lt;sup&gt;‡&lt;/sup&gt;</td>
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<sup>*</sup> p. < .05; <sup>†</sup> p. < .01; <sup>‡</sup> p. < .001.
Table 2: Correlation Matrix for Non-Owner Managers Sub-Sample

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<td>Firm Size</td>
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<tr>
<td>Innovation</td>
<td>0.078</td>
<td>0.113</td>
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<tr>
<td>Proactiveness</td>
<td>0.119</td>
<td>0.051</td>
<td>0.396*</td>
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<tr>
<td>Competitive Aggressiveness</td>
<td>0.010</td>
<td>-0.152</td>
<td>0.096</td>
<td>-0.022</td>
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<tr>
<td>Risk Taking</td>
<td>0.015</td>
<td>-0.059</td>
<td>0.186*</td>
<td>0.356*</td>
<td>0.052</td>
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<tr>
<td>Autonomy</td>
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<td>-0.010</td>
<td>0.033</td>
<td>0.117</td>
<td>0.105</td>
<td>0.291*</td>
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<tr>
<td>Sales Growth</td>
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<td>-0.105</td>
<td>-0.084</td>
<td>-0.250*</td>
<td>-0.094</td>
<td>-0.021</td>
<td>-0.203*</td>
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<tr>
<td>Overall Performance</td>
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<td>0.157</td>
<td>0.132</td>
<td>0.208*</td>
<td>-0.024</td>
<td>0.009</td>
<td>0.128</td>
<td>-0.449*</td>
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<tr>
<td>Relative Performance</td>
<td>-0.017</td>
<td>0.148</td>
<td>0.132</td>
<td>0.387*</td>
<td>-0.091</td>
<td>0.067</td>
<td>0.142</td>
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<td>-0.015</td>
<td>-0.061</td>
<td>-0.192*</td>
<td>0.205*</td>
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<td>-0.042</td>
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<td>-0.013</td>
<td>-0.173*</td>
<td>0.273*</td>
<td>0.227*</td>
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*p. < .05; †p. < .01; ‡p. < .001.
Table 3: Correlation Matrix for Owner Managers Sub-Sample

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<td>Innovation</td>
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<td>Proactiveness</td>
<td>-0.031</td>
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<tr>
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<tr>
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<td>-0.101</td>
<td>-0.084</td>
<td>-0.118</td>
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<td>Overall Performance</td>
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<td>0.067</td>
<td>0.110</td>
<td>0.154*</td>
<td>-0.065</td>
<td>0.195*</td>
<td>0.012</td>
<td>-0.376*</td>
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<td>0.041</td>
<td>0.298*</td>
<td>-0.015</td>
<td>0.130*</td>
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<td>-0.084</td>
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<td>Perceived Community Support</td>
<td>0.035</td>
<td>0.045</td>
<td>-0.013</td>
<td>-0.082</td>
<td>0.005</td>
<td>-0.146*</td>
<td>0.088</td>
<td>-0.107</td>
<td>0.068</td>
<td>0.009</td>
<td>0.590*</td>
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</tbody>
</table>

p. < .05; * p. < .01; † p. < .001.
Table 4: *Regression Results for the Full Sample*

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<thead>
<tr>
<th>Step 1</th>
<th>BCP I</th>
<th>institutional Support</th>
<th>BCP II</th>
<th>Perceived Community Support</th>
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<td>0.040</td>
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<td>Competitive Aggress.</td>
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<td>Risk Taking</td>
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<td>Autonomy</td>
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<td>Sales Growth</td>
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<td>Overall Performance</td>
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<td>Performance to industry</td>
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Table 5: Regression Results for Non-Owner Managers

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<th>Variable</th>
<th>BCP I</th>
<th></th>
<th>R²</th>
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<th>R²</th>
<th>Δ R²</th>
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<td>Sector</td>
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<td>Size</td>
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<td></td>
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<td>Competitive Aggress.</td>
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<td>Sales Growth</td>
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<td>0.402</td>
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<td>Overall Performance</td>
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<tr>
<td>Performance to industry</td>
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<td><strong>Full Model:</strong></td>
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Table 6: Regression Results for Owner Managers

<table>
<thead>
<tr>
<th>Variable</th>
<th>BCP I Institutional Support</th>
<th>BCP II Perceived Community Support</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>β</td>
<td>T</td>
</tr>
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<td>Size</td>
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<td>-0.688</td>
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<td>Proactiveness</td>
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<td>-0.083</td>
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<td>Competitive Aggress.</td>
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<td>Risk Taking</td>
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<td>2.401</td>
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<td><strong>Step 3</strong></td>
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<td>Overall Performance</td>
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<td><strong>Full Model:</strong></td>
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<tr>
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DISCUSSION

It was expected in Hypothesis 1 that higher levels of EO would be associated with higher BCP. The results of the full sample analysis found no relationship between EO and BCP I (institutional support), however a negative association between risk taking and BCP II (perceived community support) was identified, with more risk averse managers having higher BCP than those managers having a higher tolerance for risk. The results of the study indicate that firm performance explains the greatest percentage of variance in BCP among owner managers and non-owner managers of SMEs—confirming Hypothesis 2. While overall performance was positively related to BCP I and BCP II, the relationship between sales growth and both facets of BCP was negative. This suggests that managers of companies with more stable revenues had higher BCP than managers of growth companies. This finding is consistent with the relationship between risk taking and BCP in that more conservative-minded managers had higher BCP than more aggressive managers of SMEs.

The results of the regression analysis examining the responses of non-owner managers and owner managers support Hypothesis 3 with risk aversion being associated with BCP II for both owner managers and non-owner managers. BCP II was also associated with competitive aggressiveness in owner managers, but not for non-owner managers. BCP I was negatively associated with sales growth in the owner manager sub-sample, but not in the non-owner manager sub-sample. However, Hypothesis 4 was supported when looking at the BCP II results with a positive association between overall performance and BCP II in the non-owner manager sub-sample and a negative association between sales growth and BCP II in the owner-manager subsample.

The relationships affecting business climate perceptions for both owner-managers and non-owner managers of the SMEs examined in this study were relatively similar. The economic conditions in central Louisiana may partly explain why both categories of managers tended to be more satisfied with the business climate when they believed their company had pursued low relative risk strategies. It is quite likely that managers wishing to pursue aggressive growth strategies would be dissatisfied with a business climate not conducive to rapid growth. The similar attitudes of both types of managers in this study supports the theory that the actions and interests of non-owner managers are closely aligned with the interests of shareholders in externally controlled firms that are closely monitored by the principal or other dominant stockholder.

IMPLICATIONS AND FUTURE RESEARCH

The study addresses agency problems in SMEs and provides support for close monitoring of non-owner managers by principals and other dominant stockholders. The selection of professional managers by entrepreneurs unable to manage their business interests and the terms of employment contracts are critical issues in SME ownership. The results of the study found that managers who had pursued less risky strategies had more favorable views of the business climate during challenging economic conditions and that attitudes of non-owner managers and owner managers concerning the business climate were quite similar. The relationships found in this study disclosed similar attitudes concerning business climate perceptions and risk tolerance and aggressiveness. It is likely that close monitoring, job tenure of non-owner managers, owner/manager communications, and employment contract terms created a sufficiently tight alignment of manager and shareholder interests in the sample. In addition, the effect of Hurricane Katrina on the business climate for the businesses included in this sample may have contributed to a close alignment of interests since communications between managers and principals may have been frequent.

This research examining agency affects in SMEs could be improved with the addition of measurements of owner/manager communications, manager incentive compensation, and owner/manager work history. For example, alignment of the interests of owners and managers in externally controlled SMEs
would be expected to be higher in firms with frequent and high quality communications between owners and management. Also, decision making in non-owner managed SMEs may be more consistent with the desires of owners when compensation plans effectively link management incentives with owner interests. The percentage of variance explained by the model may also be improved with the addition of measures examining the working relationships between owners and managers. Specifically, it could be expected that that decision-making alignment between owners and non-owner managers would be higher where non-owner managers had first worked as a subordinate to the owner and then succeeded the owner as chief manager of the company. There is reason to extend this study to develop a better understanding of the decision making of agents employed to manage SMEs since it is not at all uncommon for business investors to be predisposed with other ventures or otherwise unable to manage the day to day activities of the enterprise.

REFERENCES

Small Business Seasonality: Characteristics and Management

Jeffrey Shields  
University of Southern Maine

Joyce Shelleman  
University of Southern Maine

Seasonal cycles of demand present major problems for management of small businesses. This research provides the first known empirical descriptive evidence on seasonality in U.S. small businesses. Frequency data were gathered from a survey of 73 small business owners. The study revealed information on the attributes of cyclical demand, including the length of seasonal phases and reported causal factors of the phases. Cost and revenue management actions small business owners employed to manage seasonality were identified by phase. Implications of the findings for both practice and future research are considered.

Small businesses face major problems related to annual cycles of demand. These cycles of seasonal fluctuations may lead to slow or lost sales, unpredictable business conditions, and cash flow problems which in turn are major obstacles for small business managers (Kaufman, 2012; National Federation of Independent Businesses, 2004). The swings in sales and business operations resulting from seasonality affect both small business profits and a region’s employment situation (Koenig & Bischoff, 2005), with potential implications for small business viability.

Despite its importance for small business management practices, there is no empirical evidence on seasonality from a business management perspective that might provide guidance to small business managers and small business consultants who advise business owners. The little information that is known is derived from economic development and tourism studies (Baum & Hagen, 1999; Butler, 2001; Cuccia & Rizzo, 2011). Those studies address economic development policy and offer normative guidelines drawn from theory and qualitative anecdotal evidence (e.g., case studies), with little grounding in systematic empirical study.

At its most basic level, seasonality itself has been poorly defined with respect to small businesses. There is no evidence on the nature of the swings or phases in business activity for small U.S. businesses, such as timing and duration, and perceived causes. Likewise there is no empirical evidence on the nature of the cost and revenue management actions small business owners take to manage seasonality.

This paper addresses this gap in the small business literature by offering empirical evidence on the nature of and responses to seasonality in small businesses, gathered from a survey of seventy-three small business owners across a range of industries. Our results provide descriptive information on the timing and duration of the different phases of seasonality and small business owners’ reported causes of seasonality. The results also reveal the frequency of cost and revenue management actions small business owners currently take to manage seasonality.

The data provided by this study will benefit both small business owners and small business consultants who offer guidance to business owners. The results offer a current empirically based portrayal of the nature of seasonality. In addition, they suggest directions for future research into the most effective cost and revenue management practices associated with seasonality.

In the next section of this paper, we review the limited relevant literature on seasonality and small business. This is followed by our methodology, results, and discussion including implications for both practitioners and scholarly research, and conclusions.
LITERATURE REVIEW

Seasonality of demand is the movements in a time series during a specific time of year (Koenig & Bischoff, 2005; Moore, 1989). Seasonality involves seasons within seasonality: the peak season, two shoulder seasons and the off-peak season (Kennedy & Deegan, 2001). Businesses may have one or more busy phase during which they will incur a significant percentage of their total annual sales (Radas & Shugan, 1998). As noted in our introduction, the swings in sales and business operations inherent in seasonality may give rise to slow or lost sales, unpredictability of business conditions, and cash flow problems, affecting small business profits and a region’s overall employment picture (Koenig & Bischoff, 2005; Spencer & Holecek, 2007).

Seasonality results from both natural and institutional causes (Allock, 1994; Becken, 2012; Cho, 2009; Hylleberg, 1992). These may include factors such as weather, timing of holidays, school vacations, and the tax year. Though it frequently is related, seasonality thus is not always tied to the seasons of the year found in nature (i.e., spring, summer, fall, and winter).

Businesses experience both direct and indirect effects from seasonality (Witt, Brooke & Buckley, 1991). Direct effects are the swings in sales that come from direct relatively predictable forces (e.g., a ski resort reliant on cold winter temperatures). Indirect effects are swings in sales of a focal business from the seasonality of other businesses (e.g., a supplier to the ski resort).

The primary management actions suggested to mitigate seasonality include increasing demand outside of the busy phase(s), market diversification, and pricing (Ashworth & Thomas, 1999; Cuccia & Rizzo, 2011). Increasing demand outside the busy phase can include strategies such as scheduling events to draw customers, increasing advertising, or running promotions. Market diversification might involve finding alternative uses for the business’s capacity during the phases other than the busy phase. Examples include actions such as using a landscape truck (a summer activity) to plow snow (a winter activity) or attracting retirees to vacation during the slow phase. Pricing strategies frequently involve discounting during non-busy phases.

Additional strategies that affect revenue and might be employed by small businesses to manage seasonality are discussed in the revenue management literature (Kimes & Chase, 1998; Shields, 2006; Thompson, 2010). Revenue management is a practice that involves the management of demand and price in order to maximize sales revenues from capacity (Kimes & Chase, 1998; Thompson, 2010). In restaurant revenue management, restaurants change their procedures during periods of high demand from procedures used during periods of low demand (Kimes, Barrash, & Alexander, 1999; Thompson, 2010). These changes made between times of high business volume and low business volume include changes to prices, space, staffing, and business hours as well as scheduling events and promotions to draw customers (Shields, 2006). These kinds of strategies position a small business to adapt to and manage the cyclical changes in sales by taking actions to manage their revenue by expanding their capacity during the shoulder up and busy phases.

Semi-structured open-ended interviews conducted with 17 Small Business Development Center (SBDC) counselors about how their small business clients adapt to seasonality suggested additional strategies to manage both revenues and costs (Shields, 2010). Cost management is the action managers take to reduce costs while maintaining value for customers (Horngren, Datar & Rajan, 2012). These interviews

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1 To avoid confusion, the seasons within seasonality with be referred to hereafter as phases: the busy phase, the shoulder up phase, the shoulder down phase, and the slow phase.
generated themes such as the need to make changes to business operations and financing (e.g., borrowing, paying off, saving during off-peak times); knowing when, what, and how much to change inventory levels (i.e., increase or decrease purchasing) during the shoulder up and shoulder down phases; investing in marketing prior to the busy phase; and hiring or laying off employees during the shoulder up and shoulder down phases.

In the next section of the paper, the methodology employed for conducting the study is presented.

**METHODS**

A convenience sample of small businesses was generated by the SBDC in a northeastern state. The sample consisted of 507 small businesses which had been clients of the SBDC during the prior two years.

A mail questionnaire was used to collect data. Three timed mailings were used following the survey mailing methodology recommended by Dillman, Smyth, & Christian (2008). Respondents received a letter from the SBDC state director informing them that they would be receiving a survey in a few days. The survey was mailed several days later with two cover letters, one from the SBDC state director and one from the principal investigator. Two weeks later, replacement surveys were mailed to those respondents who had not replied to the initial survey mailing. One hundred four surveys were returned yielding a response rate of 20.5%, with 73 usable questionnaires.

Respondents’ reported business types were retail (32%); arts, entertainment, and recreation (22%); wholesale (15%); restaurant (12%); agriculture, forestry, hunting, and fishing (9%); tourism-related (6%); lodging (4%). Average annual sales ranged from $0 to $49,000. The number of employees ranged from none (33%) to 20 or more employees (5%). Between these extremes, slightly more than a third (38%) of respondents had two to five employees, a fifth (15%) had six to ten employees, 6% had 11-15 employees, and 3% had 16-20 employees.

**Measures and Analysis**

A questionnaire instrument was developed to measure characteristics of the phases of seasonality and actions taken by small businesses to manage seasonality. Items for the questionnaire were based on the seasonality and revenue management literatures. In addition, the items were based on and incorporated information derived from semi-structured open-ended interviews with 17 SBDC counselors about how their small business clients adapt to seasonality (Shields, 2010).

Following the literature, seasonality was viewed from the perspective of four phases: Shoulder up, Busy, Shoulder down and Slow. The timing of the phases of seasonality during the calendar year was measured by asking respondents to mark check-off boxes, one for each month in the calendar year, during which their business experienced the Slow, Shoulder up, Busy, and Shoulder down phases of seasonality respectively. The duration of a phase was measured by summing the number of calendar year months selected.

The perceived causes of seasonality were measured by having respondents mark check off boxes each representing major factors drawn from the literature on seasonality. The respondents were allowed to check as many boxes as they thought applied. The literature suggested that certain actions or strategies are undertaken in specific phases. The frequency of these actions to manage seasonality was measured by seven-point Likert type scales anchored by “Never” and “Always”. Finally, additional questions gathered demographic information, such as type of business. Data were analyzed using SPSS to produce frequencies and means. In the next section, results of the analysis are presented.
RESULTS

Results on the timing and duration of seasonal phases, reported causes of seasonal sales fluctuations, and actions taken to manage sales fluctuations within each phase are reported here.

TIMING OF PHASES

Table 1 presents each of the twelve calendar months across the four phases of seasonality (i.e., Shoulder up, Busy, Shoulder down and Slow), showing the percent of respondents who categorized a given month into a specific phase as they experience it in their business. The month most frequently categorized within each phase was, respectively: June (53.4%) in the Shoulder up Phase, August (63%) in the Busy Phase, October (31%) in the Shoulder down Phase, and February (54%) in the Slow Phase.

Table 1: Percent of Respondents Indicating Months in a Phase

<table>
<thead>
<tr>
<th>MONTH</th>
<th>SHOULDER UP</th>
<th>BUSY</th>
<th>SHOULDER DOWN</th>
<th>SLOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>5.5%</td>
<td>6.8%</td>
<td>29.6%</td>
<td>44.6%</td>
</tr>
<tr>
<td>February</td>
<td>6.8%</td>
<td>8.2%</td>
<td>15.5%</td>
<td>54.0%</td>
</tr>
<tr>
<td>March</td>
<td>8.2%</td>
<td>8.2%</td>
<td>12.7%</td>
<td>52.7%</td>
</tr>
<tr>
<td>April</td>
<td>23.3%</td>
<td>9.6%</td>
<td>8.5%</td>
<td>41.9%</td>
</tr>
<tr>
<td>May</td>
<td>39.7%</td>
<td>12.3%</td>
<td>7.0%</td>
<td>31.1%</td>
</tr>
<tr>
<td>June</td>
<td>53.4%</td>
<td>23.3%</td>
<td>11.3%</td>
<td>13.5%</td>
</tr>
<tr>
<td>July</td>
<td>30.1%</td>
<td>57.5%</td>
<td>14.1%</td>
<td>14.9%</td>
</tr>
<tr>
<td>August</td>
<td>26.0%</td>
<td>63.0%</td>
<td>4.2%</td>
<td>10.8%</td>
</tr>
<tr>
<td>September</td>
<td>21.9%</td>
<td>37.0%</td>
<td>25.4%</td>
<td>9.5%</td>
</tr>
<tr>
<td>October</td>
<td>17.8%</td>
<td>30.1%</td>
<td>31.0%</td>
<td>17.6%</td>
</tr>
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<td>November</td>
<td>20.5%</td>
<td>30.1%</td>
<td>25.4%</td>
<td>16.2%</td>
</tr>
<tr>
<td>December</td>
<td>13.7%</td>
<td>37.0%</td>
<td>21.4%</td>
<td>21.9%</td>
</tr>
</tbody>
</table>

Figures 1, 2, 3, and 4 provide detail on the timing of each phase of seasonality, graphically depicting the percent of respondents who categorized each calendar month into that phase.

Figure 1: Timing of the Shoulder Up Phase, Percent of Responses by Month (N = 73)
Figure 2: Timing of the Busy Phase, Percent of Responses by Month (N = 73)

Figure 3: Timing of the Shoulder Down Phase, Percent of Responses by Month (N = 73)
DURATION OF PHASES

Table 2 shows the mean, range, and standard deviation of the duration of each phase of seasonality. The Slow Phase (mean = 3.29 months) and Busy Phase (mean = 3.23 months) lasted longest with the Shoulder up Phase (mean = 2.67 months) close behind. The shortest phase was the Shoulder down Phase (mean = 2.07 months). Among respondents, the phases ranged in length from 1 – 7 months (Slow Phase and Shoulder down Phase) to 1 – 10 months (Shoulder up Phase). The Busy Phase was 1 – 8 months in duration.

Table 2: Duration of Seasonal Phases in Months

<table>
<thead>
<tr>
<th>Phase</th>
<th>Mean</th>
<th>Range</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slow Phase</td>
<td>3.29</td>
<td>1 - 7</td>
<td>1.65</td>
</tr>
<tr>
<td>Shoulder up Phase</td>
<td>2.67</td>
<td>1 - 10</td>
<td>1.77</td>
</tr>
<tr>
<td>Busy Phase</td>
<td>3.23</td>
<td>1 - 8</td>
<td>1.78</td>
</tr>
<tr>
<td>Shoulder down Phase</td>
<td>2.07</td>
<td>1 - 7</td>
<td>1.11</td>
</tr>
</tbody>
</table>

Figures 5, 6, 7, and 8 provide detail on the duration of each phase of seasonality, graphically depicting the percent of respondents who indicated the number of months in each of the four seasonal phases.
Figure 5: **Shoulder Up Phase Duration, Percent of Responses by the Number of Months (N = 73)**

![Figure 5: Shoulder Up Phase Duration, Percent of Responses by the Number of Months (N = 73)](image)

Figure 6: **Busy Phase Duration, Percent of Responses by the Number of Months (N = 73)**

![Figure 6: Busy Phase Duration, Percent of Responses by the Number of Months (N = 73)](image)
REPORTED CAUSES OF SEASONALITY

The reported causes of uneven sales associated with seasonality across all phases were weather (29.59%), vacationing customers (25.44%), holiday weekends (18.93%), school year (12.43%), business-to-business sales (8.88%), and inventory availability (4.73%).

Timing and Frequency of Actions Taken to Manage Seasonality

Table 3 shows the mean frequency with which 27 specific actions were taken to manage seasonality, in descending order. These range from “Plan for next year” (mean = 5.96) to “Expand space” (mean = 1.90). The five most commonly employed strategies were “Plan for next year” (mean = 5.96), “Work on
business-related capabilities” (mean = 5.51), “Decrease inventory purchases” (mean = 5.40), “Increase inventory purchases” (mean = 5.38), and “Work on maintenance” (mean = 5.19). The five least commonly employed strategies were “Expand space” (mean = 1.90), “Close down” (mean = 2.21), “Increase prices” (mean = 2.49), “Discount” (mean = 2.66), “Hire additional employees” (mean = 3.12 in Shoulder up Phase and 3.28 in Busy Phase).

Table 3: Mean Frequency of Actions to Manage Seasonality (N = 73)

<table>
<thead>
<tr>
<th>ACTION</th>
<th>MEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan for next year</td>
<td>5.96</td>
</tr>
<tr>
<td>Works on business-related capabilities</td>
<td>5.51</td>
</tr>
<tr>
<td>Decrease inventory purchases</td>
<td>5.40</td>
</tr>
<tr>
<td>Increase inventory purchases</td>
<td>5.38</td>
</tr>
<tr>
<td>Work on maintenance</td>
<td>5.19</td>
</tr>
<tr>
<td>Set aside money</td>
<td>5.06</td>
</tr>
<tr>
<td>Increase inventory purchases</td>
<td>4.48</td>
</tr>
<tr>
<td>Make efforts to extend the busy season</td>
<td>4.39</td>
</tr>
<tr>
<td>Try to retain critical employees</td>
<td>4.38</td>
</tr>
<tr>
<td>Decrease employee hours</td>
<td>4.14</td>
</tr>
<tr>
<td>Increase employee hours</td>
<td>3.95</td>
</tr>
<tr>
<td>Increase advertising</td>
<td>3.91</td>
</tr>
<tr>
<td>Run promotions</td>
<td>3.81</td>
</tr>
<tr>
<td>Discount</td>
<td>3.75</td>
</tr>
<tr>
<td>Decrease hours open</td>
<td>3.71</td>
</tr>
<tr>
<td>Owner takes a vacation</td>
<td>3.61</td>
</tr>
<tr>
<td>Decrease advertising</td>
<td>3.54</td>
</tr>
<tr>
<td>Increase hours open</td>
<td>3.48</td>
</tr>
<tr>
<td>Run promotions</td>
<td>3.45</td>
</tr>
<tr>
<td>Increase hours open</td>
<td>3.39</td>
</tr>
<tr>
<td>Lay off employees</td>
<td>3.33</td>
</tr>
<tr>
<td>Hire additional employees</td>
<td>3.28</td>
</tr>
<tr>
<td>Hire additional employees</td>
<td>3.12</td>
</tr>
<tr>
<td>Discounts</td>
<td>2.66</td>
</tr>
<tr>
<td>Increase prices</td>
<td>2.49</td>
</tr>
<tr>
<td>Closes down</td>
<td>2.21</td>
</tr>
<tr>
<td>Expand space</td>
<td>1.90</td>
</tr>
</tbody>
</table>

Table 4 provides additional detail on these strategies employed to manage seasonality, ranking them in descending order within their respective phases. The top most frequent actions taken within each of the four phases were, respectively: “Increase inventory purchases” (Shoulder up phase, mean = 5.38), “Set aside money” (Busy phase, mean = 5.06), “Decrease inventory purchases” (Shoulder down phase, mean = 5.40), and “Plan for next year” (Slow phase, mean = 5.96).
Table 4: *Ranking of the Actions to Manage Seasonality by Phase (N = 73)*

<table>
<thead>
<tr>
<th>SHOULDER UP PHASE</th>
<th>MEAN</th>
<th>SHOULDER DOWN PHASE</th>
<th>MEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase inventory purchases</td>
<td>5.38</td>
<td>Decrease inventory purchases</td>
<td>5.40</td>
</tr>
<tr>
<td>Increase employee hours</td>
<td>3.95</td>
<td>Decrease employee hours</td>
<td>4.14</td>
</tr>
<tr>
<td>Increase advertising</td>
<td>3.91</td>
<td>Run promotions</td>
<td>3.81</td>
</tr>
<tr>
<td>Run promotions</td>
<td>3.45</td>
<td>Discount</td>
<td>3.75</td>
</tr>
<tr>
<td>Increase hours open</td>
<td>3.39</td>
<td>Decrease hours open</td>
<td>3.71</td>
</tr>
<tr>
<td>Hire additional employees</td>
<td>3.12</td>
<td>Decrease advertising</td>
<td>3.54</td>
</tr>
<tr>
<td>Discounts</td>
<td>2.66</td>
<td>Lay off employees</td>
<td>3.33</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUSY PHASE</th>
<th>SLOW PHASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set aside money</td>
<td>Plan for next year</td>
</tr>
<tr>
<td>Increase purchases</td>
<td>4.48</td>
</tr>
<tr>
<td>Make efforts to extend the busy season</td>
<td>4.39</td>
</tr>
<tr>
<td>Increase hours open</td>
<td>3.48</td>
</tr>
<tr>
<td>Hire additional employees</td>
<td>3.28</td>
</tr>
<tr>
<td>Increase prices</td>
<td>2.49</td>
</tr>
<tr>
<td>Expand space</td>
<td>1.90</td>
</tr>
</tbody>
</table>

**DISCUSSION**

The results of this study show that the phases of seasonality for the businesses sampled generally conform to the calendar year - with the Shoulder up Phase culminating in late spring, the Busy Phase peaking in summer, the Shoulder down Phase in the fall, and the Slow Phase in winter and early spring (see Figures 1-4). This predominant pattern was observed across these very small businesses, reflecting the meteorological year in a northern climate. Business size and type likely are factors that influence this observation. Although less than a tenth of respondents’ businesses were categorized as tourism-related, the sales of small retail, arts-entertainment-recreation, wholesale, hospitality, and traditionally outdoor businesses like farming all can be impacted by weather and climate.

The observed pattern of seasonal phases also is consistent with the reported causes for fluctuations in sales. More than half the respondents (56.80%) indicated that causes were related to the three factors of vacationing customers, holiday weekends, and the school year. Viewed in combination, these factors all are related to availability of leisure time for customers. For most people, the summer months bring most leisure time. Nearly a third of businesses (29.59%) reported that weather was the cause of the unevenness in their sales. Not surprisingly, where these businesses are located, the best weather and most leisure coincide with the month of August, the month most frequently associated with the businesses’ Busy Phase. These results with respect to the reported causes of seasonality are consistent with the causes of seasonality in the tourism literature (Allock, 1994; Becken, 2012; Cho, 2009; Hylleberg, 1992).

Although the data indicate that seasonal business phases appear to coincide with the calendar year, it is significant that most of the respondents do not close their businesses during the Slow Phase. Less than one-third of the respondents reported that they were closed during the months of January through April, the months most frequently noted as slowest.
The results provide the first known empirical data on the length of the phases of seasonality in U.S. small businesses. The phases vary in their average duration, consistent with the causal factors of weather and customer leisure time, leaving business owners with little time to react in some cases. The Shoulder up and Shoulder down phases are shorter than the Slow and Busy phases, i.e., the transition times between the highest and lowest points of the year are truncated. Business owners have a relatively short period of time to adjust to and manage the increase or decrease in sales. In addition, our examination of the range of phase durations revealed that nearly fifteen percent (13.7%) of the sample indicated that the Busy Phase – where most sales take place - lasts only one month of the year. These small business owners have a relatively short time span within which to generate sufficient revenues and profits to sustain them.

Strategies that the small business owners use to manage revenues and costs differ by seasonal phase (see Table 4). In the Shoulder up Phase, the three most frequently employed strategies (i.e., increasing inventory purchases, increasing employee hours, and increasing advertising) position the business to boost sales in ways that are consistent with the revenue management literature (Kimes & Chase, 1998; Shields, 2006; Thompson 2010). In the Busy Phase, the three most frequent actions taken are to set money aside, increase purchases and increase hours open. Two of these strategies (i.e., increasing purchases and hours open) are revenue management actions to make more sales in the midst of the busy season. The other action, setting money aside, supports findings from interviews with SBDC counselors regarding seasonality (Shields 2010).

In the Shoulder down Phase, the three most frequent actions are to decrease inventory purchases, decrease employee hours, and run promotions. Running promotions is a revenue management strategy that seeks to extend the higher level of sales experienced during the Busy Phase (Thompson, 2010). In contrast, decreasing inventory purchases and employee hours are cost management strategies put into place as the businesses’ level of activity declines. Finally, in the Slow Phase, none of the three most frequently taken actions of planning for next year, working on business capabilities, and retaining critical employees is directly related to revenue management in the current season, unlike some of the strategies employed in the prior three phases. Neither are these actions cost management strategies. Instead, these actions indirectly address revenue generation for the next season’s cycle of phases by ensuring readiness.

The least commonly employed strategies to manage seasonality include discounting during the Shoulder up Phase and raising prices during the Busy Phase. Both are standard revenue management strategies that appear to be underutilized.

**IMPLICATIONS**

The descriptive data from this study provide evidence on the nature of the phases of seasonality for policy makers, small business advisors, and small business practitioners. Policy makers can draw on the empirical evidence from this research to design programs that focus on the phases of seasonality alongside revenue management and cost management strategies that small business owners might employ during each phase. The evidence on duration and timing of the phases would help them to know when small business owners may most need assistance. In addition, incentives might be offered to motivate business owners to increase the frequency of actions they currently engage in that help them manage their costs and revenues within each phase.

Similarly, small business advisors may wish to create educational programs to emphasize the skills and concepts necessary to enable small business owners to more effectively implement cost and revenue management strategies that make the most of the opportunities and threats in each of the phases of seasonality. For example, training might cover different ways to increase sales during the Shoulder up
Phase through actions such as scheduling promotions and events or discounting prices. Such training should emphasize that planning is essential to make adjustments given the short durations of the phases (e.g., the Shoulder down phase). Educational programs should be scheduled during the Slow phase when small business owners have the time to complete them. Finally, when advising small business owners, counselors will want to consider whether the mix of revenue and cost management strategies is appropriate to both the business and the seasonal phase.

Findings of this study reveal that most of the small businesses surveyed stay open during the Slow Phase, with little action taken to boost sales during that time. Instead the focus is on retaining employees, planning, and preparing in other ways for the Busy Phase. This natural time to regroup may be an essential element of seasonality. Alternatively, the seemingly fallow time could suggest that additional strategies could be deployed to boost and extend the sales season, perhaps, in some cases, with e-commerce. Retaining critical employees was a strategy employed to manage seasonality during the Slow Phase. Although we did not collect information that might point to an altruistic philosophical basis for the practice, such as simply providing income for loyal workers, it may be that plays a role as well (Shields, 2010). In the event that there is neither a need nor clear philosophical basis and the shoulders of the season cannot be extended, some business owners might find it beneficial to manage costs by closing during the Slow Phase.

It is also of note that only a small portion of the total sample of small businesses categorized their business as directly tourism-related. Yet most experience seasons in accord with the meteorological year and customer leisure time. Are some of these businesses in fact tourism-related but not self-defined as such? The ways in which small business owners define their businesses may determine how they respond to and manage seasonal variations. An enhanced understanding of customers and customer segments is central to effective revenue management practices (Bell, 2012; Shields, 2006).

Results of this study offer small business owners a snapshot of actions currently taken by other small business owners to manage seasonality. It is up to the individual small business practitioner to give thought and to have discussions about the nature and frequency of actions reported by this research to examine what may or may not work in his or her own business.

CONCLUSION

This research contributes to the small business literature by providing the first known descriptive survey information on the nature of the swings in seasonality for small U.S. businesses. It is drawn from a sample of very small businesses in a northern climate. Results reveal that phases of seasonality follow the calendar year and vary in length. This is an apparent reflection of the impact of weather and customer leisure time that has real consequences for small businesses. These findings also bring to light the dramatically short time that some small businesses have available to generate significant revenues and to make adjustments to seasonal swings in demand. The frequency of cost and revenue management strategies undertaken by small businesses to manage seasonality shown by these results offers new insight to how small business owners address seasonal variations.

Future research might examine seasonality in other types of businesses, larger small businesses, or geographic regions. While this study did include a range of businesses, it was limited to very small businesses in one state in the northeastern U.S. where weather ranges from hot to cold throughout the calendar year. Additional insight would be gained by studying seasonality issues among small businesses in a place with a warmer year-round climate. The length of phases may be different in a southern climate. This difference might be associated with small business owners in those regions taking either more frequent or additional revenue and cost management strategies to manage the different phases of seasonality.
Subsequent research also might examine the cash flow and performance effects of cost and revenue management actions during the different phases of seasonality as well as variations in the duration of the phases of seasonality. In addition, a longitudinal study could measure the longer term effects of seasonality on small business survival and actions taken to manage the phases of seasonality.

REFERENCES


The New Generation of Massive Open Online Course (MOOCS) and Entrepreneurship Education

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Bucharest University of Economics

Learners all over the world, including rising entrepreneurs, have increased educational opportunities due to the internet’s affordance of connectivity. This study examines the rapid shift and evolution in online education by Massive Open Online Courses (MOOC). We focus on what is being called xMOOCs, the second generation, providers of free, worldwide online courses from the world’s most renowned professors and universities. The implications of MOOCs on higher and entrepreneurial education are explored and effective strategies for future implementation are discussed.

Higher Economic Institutions (HEI) are in the middle of “transformative changes” both at the conceptual (new models of education, advancement of theories of social learning) and technological levels (eLearning, mobile devices, learning networks) because of upheavals globally, socially, politically, and technologically. Likewise, entrepreneurship education has advanced as a means to educate the new 21st Century workforce by giving them the skills to take any area of study or discipline and be creative, innovative, and entrepreneurial. Through entrepreneurship education, flexibility, adaptability, and resilience are taught and applied so that success can be achieved as workforce demands change over time. Online opportunities in entrepreneurship education are leading to increased educational opportunities (Siemens & Tittenberger, 2009) with practically no geographical or time boundaries.

Online courses, offered for years by many universities, were mainly designed according to the traditional lecture format, which might explain, at least partly, their lack of success. While the Fathom for-profit online platform at Columbia University enrolled 65,000 students (2000-2003) (Redmon, 2012), the latest emerging massive online courses (MOOCs) are registering learners in the millions in less than a year at no cost. The movement toward MOOCs is quickly amplifying and intensifying, as more and more “actors” have been announcing their entrance during the last five years, as captured in Figure 1 below (Hill, 2012a).

Figure 1: MOOCs Fast Pace Evolution

Source: Hill, 2012a
The new platforms launched in 2012 include Udacity, Coursera, edX, and offer free top quality MOOCs, with huge enrollment levels. Some of the most renowned U.S. universities, including Stanford, Harvard, and MIT, among others, have begun this endeavor of opening the digital doors to the masses. This phenomenon marks a major shift in the digital learning’s expansion. In the context of a slow economy and rising tuition fees associated with unprecedented U.S. student debt, MOOCs have the potential to permanently change the education landscape, particularly entrepreneurship education that is not readily available around the world in developing economies.

This paper examines entrepreneurship education in light of the MOOC phenomenon. We outline the history, strengths and weakness, and explore MOOCs’ potential impact on higher and entrepreneurial education (EE), including those in developing countries. Effective strategies to embrace these major changes are also provided. Further research implications are discussed.

**ENTREPRENEURSHIP EDUCATION**

There is no question that entrepreneurship has had a major impact on society. Entrepreneurial education is a relatively new field in higher education which has proliferated since the 1970s but really took off in the 1980s (Katz, 2003), with over 2,200 courses at over 1,600 institutions of higher learning offering classes in entrepreneurship, over 100 funded centers, 277 endowed chairs, and 44 refereed academic journals (Finkle, Kuratko, & Goldsby, 2006). Membership in the Global Consortium of Entrepreneurship Centers now numbers 200 plus (www.globalentrepreneurshipconsortium.org). While the development of the field of entrepreneurship education is still being debated by scholars as to whether it is fully accepted by the academic community as a whole and if it has reached maturity (Katz, 2008; Kuratko, 2005); there is no question that there has been a major impact on the next generation of entrepreneurs by getting the basic skills needed to start and grow a business, and in many cases, funding by venture capitalists, angels, and competitions ran through entrepreneurship centers and their community connections. The changing role of the university in economic development as an active participant has spurred universities to develop new kinds of learning by aligning curricula more closely with the needs of the workforce. Students today “want a job-focused education,” according to a recent article by Justin Pope of The Associated Press (2012). Entrepreneurship education is the sweet spot.

*On the Road to an Entrepreneurial Economy: A Research and Policy Guide* published in 2007 by the Kauffman Foundation, the largest foundation supporting Entrepreneurship worldwide, the document outlined that the Entrepreneurship “process is impossible without the highly creative and highly educated individuals who will be tomorrow’s high-impact entrepreneurs. Equally important, are the innovative and skilled individuals who will work for these entrepreneurs.”(p. 8). According to an SBA study (Acs, Parsons, & Tracy, 2008), “High-Impact Firms: Gazelles Revisited,” the fastest growing firms are on average 25 years old. All companies need innovation. Graduates need to possess the knowledge, skills, and motivation necessary to create organizations as well as advance in these organizations. Research supports the contention that entrepreneurship education has had an impact on student entrepreneurial propensity and intentions (Pittaway & Cope, 2007). However, the measurement of entrepreneurial propensity, in online entrepreneurship education, let alone in traditional Entrepreneurship programs, has been lacking (Athayde, 2009).

Entrepreneurship knowledge is increasingly cited as a critical factor for success. Carl Schramm, former President and CEO of the Kauffman Foundation, in a speech to students of Stanford University upon the inauguration of Entrepreneurship Week USA in February of 2007, said “It could be as common for an American college student to start a business as it is to anticipate marriage or parenthood” (p.1). Graduates must also be prepared to pursue graduate study in Entrepreneurship, an MBA, or a specific area of education. This is predicted to further enhance scientific research, innovation, and knowledge generation as well as cultural and social thinking. Online entrepreneurship education offers a solution to
this pressing need by providing access to almost anyone around the world. The purpose of this paper is to examine online education and its application to entrepreneurship education. We begin by explaining the history of MOOCs, where they are going, the challenges and benefits, one author’s direct experience taking an online entrepreneurship course, and what the future holds.

HISTORY OF MOOCs

According to the short time span MOOCs have existed outlined in, “Connectivism and Connective Knowledge” (CCK08), by George Siemens and Stephen Downes, Manitoba University in Canada is considered to be the first free global MOOC (Downes, 2011). It was preceded by Wiley Wiki, who pioneered the idea of open online content, as part of the open education movement that included the component of editing by participants (Iiyoshi & Kumar, 2008).

Udemy started in 2010, offering on-demand hybrid (free or charged) short online courses (5000 to date), taught not only by professors, but also by practitioners (CEOs, industry experts, consultants, etc.) (www.udemy.com/static/faq). The new platforms – Udacity, Coursera, and edX - launched in 2012, use an integrated experiential and interpersonal approach, and mark a real shift in the field of MOOCs. These new platforms are backed by highly ranked universities with the latest technological advances. This has resulted in revolutionary improved quality of online delivery platforms. The new wave of MOOCs is attracting millions of people from all over the world. Udacity, Coursera, and edX are the leading competitors in the race to take the lead in online delivery. Information is still scarce, but the main features of these entrepreneurial businesses are outlined below.

The defining milestone in the current redefined MOOC outreach, partly inspired by Khan Academy (www.khanacademy.org), was the Stanford University course taught by Sebastian Thrun and Peter Norvig. The experiment was a spin-off of two different projects: Udacity and Coursera.

Udacity is a private educational organization founded by Sebastian Thrun along with David Stavens, and Mike Sokolsky. Its mission is “to bring accessible, engaging, and effective higher education to the world; we believe that higher education is a basic human right, and we seek to empower our students to develop their skills in order to advance their careers” (www.udacity.com). There are to date 22 classes in four areas, including Business courses, offered for free online. Testing is available online (for free) or, face-to-face (for a fee). Upon completing a course, students receive a certificate of completion (sent by e-mail, as a PDF file) indicating their level of achievement, signed by the instructors, at no cost. Udacity claims to have had more than 160,000 students enrolled (www.udacity.com).

The online platform called “Coursera” (www.coursera.org) was initiated by two Stanford University professors, Daphne Koller and Andrew Ng, who founded a social entrepreneurship company in Mountain View, California with $22 million in venture funding, and quickly partnered with their university. Their aim is to make the best higher education available to as many people as possible, “Our mission is to teach the world and make higher education available for everyone” (Mitchell, 2012). The number of actual top universities joining the project is continuously rising, reaching 62 as of February, 2013. Twenty-seven of the 62 universities are international, encompassing 19 countries (www.coursera.org/#universities). Since Coursera’s launch, more than three million people have signed up for one or more of the 329 offered courses (each with a definitive start date, and comprehension testing), in 24 categories, out of which three are EE related (details provided below), ranging from five to 12 weeks in length. English is the main language used (302 courses), but courses are now offered also in Spanish (11 courses), French (9 courses), Chinese (5 courses) and Italian (1 course) as of February, 2013. Multiple language offerings open access to an even larger number of learners (www.coursera.org/#courses). Statements of accomplishment are issued upon graduation.
Willing to be part of the MOOC race, Harvard University and the Massachusetts Institute of Technology (MIT), considered “late adopters” (Lewin, 2012a), decided to partner to form edX (www.edx.org), a not-for-profit venture (based in Cambridge, Massachusetts), with a joint funding of $60 million ($30 million each). The edX starting point was an online course, launched in spring of 2012 by MIT professor Anant Agarwal (now the first edX President), with an identical curricula to that of the classroom-based course. The primary goal of edX is to “improve teaching and learning on campus by experimenting with blended models of learning and by supporting faculty in conducting significant research on how students learn” (www.edx.org/faq). To the existing three top U.S. universities in the partnership (including University of California, Berkeley), six other U.S.-based universities and six U.S. health institutions will be added beginning in the fall 2013 and four international universities in 2014 (www.edX.org/faq). The edX currently offers 26 courses. Graduates can earn a certificate of completion, after successfully completing a free, proctored exam, issued under the name of the providing university. More than 900 thousand have registered. A much smaller competitor, that could be considered a niche platform, is Codecademy (launched in late 2011), provides computer programming courses (with no deadlines), for free. Its stated mission is “to turn a world of tech consumers into one of empowered builders” (www.codecademy.com/about).

This latest generation of MOOCs is ideologically different compared to the previous one. In that sense, Siemens (2012) identifies two types of MOOCs:

- cMOOCs-the first generation started in 2008, focusing on knowledge creation and generation (e.g., CCK08); learners’ creativity, autonomy, and networking are encouraged; learners are expected to enrich the course’s content.

- xMOOCs- the second generation started in 2012, are based on a more traditional format, with fixed structured content, centralized discussion forum support, and automated or peer-graded evaluation (e.g., Coursera and edX); students are required to master what they are taught.

We believe xMOOCs will probably tend to have a greater impact on higher education due to their main strengths: high quality content provided by leading partnering universities, existence of deadlines and grades, the attribute of being no cost, and consistent financial support for development. The new top generation of xMOOCs, induces undeniable positive outcomes for learners. However, there is a question revenue models and how to sustain being no cost to those being educated.

**BENEFITS**

Since 2010, the U.S. Department of Education concluded in the study, “Meta-Analysis and Review of Online Learning Studies,” that students learning online performed, on average, modestly better than those learning the same material through traditional face-to-face instruction, further enhancing online learning development. xMOOCs might be the final stage in the process, and they are expected to draw millions of students and adult learners globally, due to their indisputable benefits. These include:

The free xMOOCs can reach a high number of students, including aspiring and established entrepreneurs, all over the world, with no time boundaries. No discrimination due to age, nationality, occupation, health, or financial resources exist, each person with access to the internet is eligible. The emergence of the xMOOCs mark a unique educational opportunity for people living in developing countries, people with low incomes, people with disabilities, regardless of the reason for their online endeavor-to learn new job skills, to adapt to new demands at an existing job, to become an entrepreneur, or simply for knowledge enrichment.
Especially with xMOOCs, students can benefit professionally and personally from free and high quality course content, that follows the same rigorous standards as classroom-based courses. Competing platforms, Coursera and edX, have officially claimed to maintain similar quality standards and requirements. As the edX President points out, “the reach changes exponentially, but the rigor remains the same” (www.edx.org/faq). In fact, on average, less than 10% of MOOCs students are passing the final exams.

Students can also engage in a free high quality learning experience. xMOOCs’ designed formats, based on the advanced technology and using strict deadlines and grades, have strong pedagogical foundations that assist students to understand new concepts quickly and effectively ensuring their engagement and improve long-term retention. xMOOCs provide students with high flexibility, through the possibility of accessing the same content multiple times, anywhere and anytime. Students can feel free to pause, speed through the content, rewind, and repeat questions and/or answers without the fear of being judged or patronized. They can afford multiple attempts to demonstrate their new knowledge. Feedback is even more frequent than in the traditional classroom format, favoring an accurate self-monitoring of each student’s own progress.

Personalization is another dimension of xMOOCs that students notice. During the learning process, additional preparatory or enrichment materials are available, according to each student’s background and desire. Each student can have his/her own trajectory in engaging, understanding, and mastering the knowledge provided by the course. With instant feedback, “no student can move on without knowing the answer compared to traditional classroom lecture” (Koller, 2012). Also, by analyzing the recorded data on the platform, students’ misconceptions on a certain concept can be identified and a targeted error message can be sent.

Learners have the opportunity to experience the high interactivity of xMOOC format, not only in relation with the computer or smartphone, but also with fellow students. It is about joining a global community of thousands of students while learning alongside them and grading them. Coursera, for example now has the largest peer-grading pipeline ever devised, where tens of thousands of students are grading each other’s work successfully (Koller, 2012). Peer grading can add value to the learning experience. The chance to communicate and work on assignments with people from different cultures is, in itself, an uplifting experience. Collaborative learning, as a highly effective method, is also part of xMOOC experience. Students can collaborate in many ways: posing questions and answers on forums, sharing information, and forming virtual or physical study groups. The opportunity to try several domains while not being charged may result in a better self match between ones aptitudes, interests, and professional requirements.

The potential positive outcomes for those who take xMOOCs and successfully complete these classes can result in both positive professional and personal outcomes. Based on completion certificates, students might get credit points from their local on-campus universities and, by speeding up the graduation process, could save time and money. The University of Washington and the University of Helsinki, for example, have already announced that they will offer college credit for Coursera MOOCs (Chea, 2012), just as Antioch University does. There is also encouraging feedback related to future certificate recognition among employers. A. Ng from Coursera says that “faced with a shortage of engineering talent, many tech companies have already asked for introductions to students who successfully completed his online course” (Ferenstein, 2012). Nevertheless, xMOOCs have the potential to transform into reality lifelong learning by offering a valuable body of knowledge, whether “just to expand our minds or to change our lives” (Koller, 2012). The opportunity for older learners to update their knowledge, to acquire new skills according to work place new demands, increases their chances to keep current with their jobs, to get promoted or hired at a higher level, or even consider launching their own small business or be innovative as a corporate entrepreneur.
Undiscovered talents, especially in countries with low access to higher education, could manifest themselves through MOOCs, bringing a “wave of innovation” (Koller, 2012).

In the future, it may become feasible for organizations, both profit and not-for-profit, to outsource some of their training activities, at low or no costs, by simply requiring their employees to obtain xMOOC official certificates of completion on pertinent topics.

At a more general level, xMOOCs can give unparalleled insights into human learning. By tracking all online activity, huge amounts of data are being generated and lead to scientific research on student learning, including the role of technology in facilitating more effective teaching—both on campus and online. This research could give valuable insights into the most effective teaching strategies and revolutionize how we educate. This particularly allows for entrepreneurial educators to experiment with what works best in their environment and change the face of education. In fact, it is those entrepreneurs in all facets of education that are making the difference and MOOCs are a great example of how to make a difference around the world by opening learning opportunities to enable others to reach their full potential. Economic, technological, and social conditions are ripe for higher education to meet the marketplaces’ changing education demands through xMOOCs’ flexible, effective, and efficient offerings. However, they will all have to overcome several barriers in order to fully succeed.

**OBSTACLES**

Several weaknesses of MOOCs have been pointed out. For example, a new study by Inside Higher Ed and the Babson Survey Research Group shows that two thirds of the inquired professors are reluctant toward online education, considering that its learning outcomes are inferior to those of campus based education (Kolowich, 2012a). Lack of face-to-face communication, lack of frequent feedback from a professor, or irreplaceable classroom experiences are arguments frequently mentioned by skeptics. There were also questions raised regarding students’ evaluations, due to the difficulty to check who is really completing the assignments, as well as the value of an online degree. The humanities, social sciences, and business, which require online written work utilizing critical thinking skills, are difficult to assess online. Hill (2012a) summarized the main interrelated barriers: developing revenue models to make the concept self-sustaining, delivering valuable signifiers of completion such as credentials, badges or acceptance into accreditation and authenticating students in a manner to satisfy accrediting institutions or hiring companies that the student’s identify is actually known. He also named the low rate of completion (under 10%) as a barrier but we believe this is occurring because of the early phase in the MOOCs lifecycle and will be improved upon quickly. Important steps have already been made to overcome some of these obstacles.

Currently, all competitors have succeeded in raising venture funds, but generating revenues may become critical in the future and require a viable business model. In an attempt to capture the present complex landscape (Hill, 2012b), seven main educational delivery models were identified, according to modality and method of course design criteria: ad hoc online courses and programs, fully online programs, school as a service, educational partnerships, competency based education, blended/hybrid courses and the flipped classroom, and massive open online courses (MOOC). Regarding monetization, one considered option is charging students for the exams and/or completion certificates. Based on a partnership with Pearson Vue, face-to-face testing is already available on Udacity (for a fee of $89, in one of the 4000 testing centers in more than 170 countries) (blog.udacity.com/2012/06/udacity-in-partnership-with-pearson-vue.html) and on edX (for free, in 2013, but for a small fee in the future, in one of the 450 testing centers, in 110 countries). With lower costs (a posted course can run practically on itself) and a significantly larger number of graduates than on campus, fees can be established at very low, affordable levels. A. Ng from Coursera suggested that some schools may sell branded certificates (Weissmann, 2012). Another way toward developing a revenue stream is selling a course or parts of it,
or a customized version to entities (companies, institutions, etc.) for their internal use or licensing. Antioch University, for example, became the first institution of higher education in U.S. to give their students credentials for MOOCs through Coursera based on a licensing contract (Kolowich, 2012b). Another financial source could be to make use of the detailed records on each student’s achievements (with permission) by charging employers interested in identifying top students. Both Coursera and edX are exploring this revenue source (Simon, 2012). Udacity is willing to use a “recruiter fee model,” retaining a commission for each talented graduate discovered and is in the process of building connections with companies and websites, such as Twitter and Amazon (Redmon, 2012). Hosting targeting online ads might also be considered at some point (Mitchell, 2012). Additionally, we believe a lucrative revenue source may be to charge researchers for the database.

In order to address the credentials issue, Coursera has obtained for five of its courses, based on the recommendation of the American Council on Education (ACE), course credit equivalency that they have offered to more than 2,000 U.S. colleges and universities. This is opening up the possibility for students enrolled at one of these institutions to transfer credit into their degree programs (blog.coursera.org/post/35647313909/american-council-on-education-to-evaluate-credit).

In an effort to lower students’ cheating, all platforms developed online have a code of ethics that learners must agree to abide by in order to submit their assignments. To increase the value of their completion certificates, both Udacity and edX, are offering the proctor exam option. Similarly, for those interested in credit equivalence, Coursera recently introduced the “Track Signature” option for 15 of its courses, consisting of an online proctored exam. Other innovative solutions that are being explored and possibly implemented in the near future (Coughlan, 2012) include doing online examinations, considering the rate and the specific way a particular phrase is typed as the learners’ personal signature, developing an appropriate webcam that can provide effective invigilation, and iris recognition that could verify a student's identity. Online education is still in its early phases of development and solutions are needed to “soft” aspects, such as the optimal level of reading and writing students should be asked to do, the optimum level of social interaction, and the value of face-to-face learning versus interacting in a forum, among other issues (Mitchell, 2012). Despite their imperfections, xMOOCs have the potential to generate unprecedented impact all over the world, especially through the powerful online platforms of Coursera, edX, and Udacity. Some of the effects on both higher education and entrepreneurial education, including those in developing countries, are addressed in the following sections.

**IMPLICATIONS**

In its 2011 survey of online learning results, Babson Survey Research Group shows a growing trend in the proportion of students taking online courses, at the global level (> 6.1 million) as of 2010. Also, one third of all students in Higher Education Institutions (HEI) were involved in at least one online course (Chmura, 2012). According to the same study, the growth of online enrollment was ten percent, while the growth in the overall higher education student population was only two percent. These results do not include the new powerful MOOC phenomenon that offers free access to higher standard education. Even though a vocal minority in the academic community questions the quality of online education, 65 percent of HEIs now say that online learning is a critical part of their long-term strategy (Chmura, 2012). Strong evidence exists that supports the trend of growing interest in MOOCs, as more than 70 top ranked universities from 20 countries have joined in less than a year.

In the U.S., the leading MOOC country, high ranked personalities have already displayed positive attitudes toward the MOOC phenomenon, ranging from “experiment” to “revolution.” The President of the American Council on Education, Molly Corbett Broad, said that “[MOOCs] holds the potential for serving many, many hundreds of thousands of students in a way we simply cannot today” (Chea, 2012). The Chancellor of The University of California-Berkeley, Robert Birgeneau, believes that “[MOOCs] will
ultimately revolutionize education” (Chea, 2012). Also, the Director of the Center for 21st Century Universities, Richard DeMillo, a computer science professor from Georgia Institute of Technology said, “We’re in the middle of a potentially groundbreaking experiment. Really big things could come out of it” (Chea, 2012). Criticized by many for preserving the same lecture format for hundreds of years, HEIs face what could be considered “disruptive competition.” Russ Whitehurst, Director of the Brown Centre on Education Policy at the Brookings Institute said, “MOOCs provide disruptive competition to the status quo” (Lewin, 2012b). On the other side of the spectrum, people like Phil Hanlon, the Provost at the University of Michigan, believes that the new technology would enhance the campus experience by combining video watching with hands-on activities that can’t be replicated in cyberspace (Simon, 2012).

xMOOCs will affect very differently higher and entrepreneurial education all over the world. However, in our opinion, all HEIs will have to drastically reshape their strategies. One way that xMOOCs can be judged is by their effects on the position in the ranking of universities. Some of the top ranked universities are highly involved, whether as platform initiators (like Stanford, Harvard, MIT), or joining partners, and this will have the effect of increasing the visibility and prestige of MOOCs by attracting students world-wide. MOOCs are predicted to specifically target students majoring in post-secondary education. The Georgetown Center on Education and Workforce forecasts that “over half of all jobs created that will require post-secondary education of some type will be filled by people with associates degrees or occupational certificates. Small companies need those kinds of workers” (Bolden & Miller, 2012). The effects can be differentiated according to the field of study too. High structured disciplines with easy scalable outputs will be the first affected by their online counterparts.

By researching the data from all tracked activity on the platform, top universities can come up with improved learning techniques for both on campus and online. They can also identify and attract talent from around the world. However, these privileged HEIs will have to deeply reconsider their strategies, including those related to traditionally high tuition fee practices.

Universities that are at the end of the ranking lists, mainly in developing countries, some with major economic issues, including high budgetary constraints, will have to struggle more than those in developed ones. Faced with increased educational opportunities, at higher quality and lower costs, students will choose xMOOCs over face-to-face courses at an increasing rate. Presently, the majority of learners are from outside the U.S. Udacity already reported this findings, with two-thirds of its students (Redmon, 2012) and Coursera for three-fourths of them, with Brazil, Britain, India, and Russia being the most important markets (Kolowich, 2012c). Even though there are language barriers and legal issues that vary by country (i.e., certificate recognition, credit transfer); for now some protection exists for these universities. International students, particularly in developing economies and non-EU countries, will tend to opt for free top quality online courses, drastically reducing the burden of their education costs. Encouraging employers’ attitudes toward better educated online graduates will lead to a decline in the number of students attending traditional universities. This will force universities, the ones who survive, to dramatically redesign their strategies.

Successful redesign strategies at universities can then be communicated and replicated. Possible solutions lie in:

- The organizational area-raising awareness among university members toward the impending changes and involving them in the transformation process; encouraging them to sign-up for already existing MOOCs addressing online tools and their effective use; identifying and eliminating organizational cultures that constrain the use of technological innovations, as recently suggested by (Schrire & Levy, 2012).
- The area of campus-based systems-consistent improvements in the quality of the students’ education experiences on campus will become imperative by implementing modern, effective teaching practices and by focusing on discussions and debates that enhance students’ creativity. In doing so, the chances of retaining students could improve. Embracing blended learning models or hybrid courses and suggesting students enroll in specific MOOCs to increase their learning experiences would also be actions in a positive direction. Some universities may experiment with developing own evaluation process for credit transfer which could become a model shared by other universities.

- In the area of online teaching-joining an existing elite group of universities’ MOOC platform has little chance of success, but forming partnerships with regional universities to build their own platform, with content that captures local and regional specificity might be, for some universities, a good solution.

- In the research area-the options are more numerous, and include developing academic-business partnerships for applied research, and partnering with state institutions for fundamental research.

- In the service area-providing consulting services, renting laboratories and online spaces, renting out equipment for experimentation with experts to operate physically or remotely, and providing recruiting services for local businesses.

All universities will enter a new phase of their evolution that requires a state of the art business model which includes campus and online education. All fields of study have to be reengineered, including business and entrepreneurship.

**FUTURE RESEARCH**

It is generally accepted that higher Entrepreneurship Education (EE) is the key to success for many entrepreneurs, business owners, corporate entrepreneurs and social entrepreneurs and their ventures. Americans have a history of continuously raising their educational attainment based on availability and occupational demands (www.gpoaccess.gov/eop/2011/pdf/ERP-2011.pdf). EE is an effective tool that can stimulate the entrepreneurial mindsets of students, encourage innovative business start-ups, grow small- and medium-sized businesses, launch social entrepreneurship ventures, and foster an entrepreneurial culture throughout the population (Welsh & Dragusin, 2011). In this context, the emerging MOOCs represent the latest developments in the complex array of education choices and open up access to quality EE.

MOOCs are becoming a high value component of EE that can contribute to raising the capacity of diverse learners, and enable them to better cope with the myriad of expectations and demands they will face as they are deciding to starting their new ventures. MOOCs can provide quality entrepreneurship-related content for all types of learners, regardless of their background, status, resources, time, or location at a dramatically reduced cost. MOOCs offer its learners the opportunity to join a global community with potentially thousands of digital classmates that could provide cross-national connections opening business collaboration and potential opportunities cross culturally.

The beneficiaries of MOOCs can be undergraduate as well as graduate students, traditional or non-traditional students, aspiring or existing entrepreneurs, but all interested in acquiring or improving their knowledge and skills in:

The field of Entrepreneurship and related areas-the current xMOOCs provide a relatively diverse curricula (See Table 1), ranging from idea generation, the start-up phase, business models, innovation, managing the business, financing, growing the business, and building competitive strategies. The Coursera platform is dominant in the field of Entrepreneurship Education, with 29 out of 32 suitable courses, while there are only two EE edX courses and one Udacity course. There are only two courses offered in a language other than English, which are both in Spanish.
Table 1  Current xMOOCs offer related to EE

<table>
<thead>
<tr>
<th>Nr.</th>
<th>MOOCs / DOMAIN / OFFERED COURSE NAME:</th>
<th>MOOC PROVIDER:</th>
<th>Taught in:</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Domain - Business and Management:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Developing Innovative Ideas for New Companies</td>
<td>Coursera/Univ. of Maryland</td>
<td>English</td>
</tr>
<tr>
<td>2.</td>
<td>Startup Engineering</td>
<td>Coursera/Stanford Univ.</td>
<td>English</td>
</tr>
<tr>
<td>3.</td>
<td>Grow to Greatness: Smart Growth for Private Businesses (Part I + Part II)</td>
<td>Coursera/Univ. of Virginia</td>
<td>English</td>
</tr>
<tr>
<td>4.</td>
<td>Law and the Entrepreneur</td>
<td>Coursera/Univ. of Virginia</td>
<td>English</td>
</tr>
<tr>
<td>7.</td>
<td>Leading Strategic Innovation in Organizations</td>
<td>Coursera/ Vanderbilt Univ.</td>
<td>English</td>
</tr>
<tr>
<td>8.</td>
<td>Surviving Disruptive Technologies</td>
<td>Coursera/Univ.of Maryland</td>
<td>English</td>
</tr>
<tr>
<td>9.</td>
<td>Organizational Analysis</td>
<td>Coursera/ Stanford Univ.</td>
<td>English</td>
</tr>
<tr>
<td>10.</td>
<td>Rapid development of innovative products for emerging markets/ Desarrollo rápido de productos innovadores para mercados emergentes</td>
<td>Coursera/ Technologico de Monterrey</td>
<td>Spanish</td>
</tr>
<tr>
<td>11.</td>
<td>Continuity and development of the family business/ Continuidad y desarrollo de la empresa familiar</td>
<td>Coursera/ Technologico de Monterrey</td>
<td>Spanish</td>
</tr>
<tr>
<td>12.</td>
<td>An Introduction to Operations Management</td>
<td>Coursera/ Univ. of Pennsylvania</td>
<td>English</td>
</tr>
<tr>
<td>13.</td>
<td>Introduction to Finance</td>
<td>Coursera/Univ. of Michigan</td>
<td>English</td>
</tr>
<tr>
<td>16.</td>
<td>International Organizations Management</td>
<td>Coursera/Univ. of Geneva</td>
<td>English</td>
</tr>
<tr>
<td>17.</td>
<td>Creativity, innovationn and Change</td>
<td>Coursera/Pennsylvania State Univ.</td>
<td>English</td>
</tr>
<tr>
<td>18.</td>
<td>New Models of Business in Society</td>
<td>Coursera/Univ. of Virginia.</td>
<td>English</td>
</tr>
<tr>
<td>19.</td>
<td>Design Thinking for Business Innovation</td>
<td>Coursera/Univ. of Virginia.</td>
<td>English</td>
</tr>
<tr>
<td>20.</td>
<td>Inspiring Leadership through Emotional Intelligence</td>
<td>Coursera/ Case Western Reserve Univ.</td>
<td>English</td>
</tr>
<tr>
<td>21.</td>
<td>How to build a Start-up: The Lean Launch Pad I</td>
<td>Udacity</td>
<td>English</td>
</tr>
<tr>
<td>22.</td>
<td>Copyright</td>
<td>edX/ Harvard Univ.</td>
<td>English</td>
</tr>
<tr>
<td>B. Domain - Economics and Finance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Fundamentals of Personal Financial Planning</td>
<td>Coursera/ Univ. of California, Irvine</td>
<td>English</td>
</tr>
<tr>
<td>2.</td>
<td>Microeconomics for Managers</td>
<td>Coursera/ Univ. of California, Irvine</td>
<td>English</td>
</tr>
<tr>
<td>3.</td>
<td>Property and Liability: An Introduction to Law and Economics</td>
<td>Coursera/ Wesleyan Univ.</td>
<td>English</td>
</tr>
<tr>
<td>4.</td>
<td>Principles of Microeconomics</td>
<td>Coursera/ Univ. of Pennsylvania</td>
<td>English</td>
</tr>
<tr>
<td>5.</td>
<td>Microeconomics Principles</td>
<td>Coursera/ Univ. of Illinois at Urbana-Champaign</td>
<td>English</td>
</tr>
<tr>
<td>6.</td>
<td>Networks: Friends, Money and Bytes</td>
<td>Coursera/ Princeton Univ.</td>
<td>English</td>
</tr>
<tr>
<td>C Domain - Statistics, Data Analysis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Passion Driven Statistics</td>
<td>Coursera/ Wesleyan Univ.</td>
<td>English</td>
</tr>
<tr>
<td>2.</td>
<td>Statistics One</td>
<td>Coursera/ Princeton Univ.</td>
<td>English</td>
</tr>
<tr>
<td>3.</td>
<td>Statistics: Making Sense of Data</td>
<td>Coursera/Univ. of Toronto</td>
<td>English</td>
</tr>
<tr>
<td>4.</td>
<td>Introduction to Statistics: Descriptive Statistics</td>
<td>edX/ Berkeley Univ. of California</td>
<td>English</td>
</tr>
</tbody>
</table>

Source: authors’ online research on: www.coursera.org; www.edX.org; www.udacity.com
The cMOOCs offerings consists mainly of Udemy’s 197 short business-related courses with hands-on names, out of which 12 are free entrepreneurship related courses (See Table 2).

### Table 2 - Current cMOOCs offer related to EE

<table>
<thead>
<tr>
<th>Nr.</th>
<th>MOOCs / DOMAIN / OFFERED COURSE NAME</th>
<th>MOOC PROVIDER</th>
<th>Taught in:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Buil.Measure.Learn. Lean Startup</td>
<td>Udemy</td>
<td>English</td>
</tr>
<tr>
<td>2</td>
<td>An Entrepreneurs’ Checklist</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>21 Critical ...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>The Lean Startup at Stanford E-Corner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Raising Startup Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Web Design for Entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Foundations of Business Strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>How to Break out of the Pack</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Founders Pie</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Social Entrepreneurship: an Introduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Kikstarter Equation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: authors’ online research on www.udemy.com/courses/search?q=entrepreneurship&price=free/

Related fields (i.e., Computers Systems, IT, Engineering, Health, Design, Art) - that support the discovery of an opportunity, or give a better understanding of an existing evolving business area. There are already hundreds of MOOCs available on platforms like Coursera, Udemy, Udacity, Class2Go (a new Stanford MOOC Platform), Codecademy, among others.

There are several Entrepreneurship Education topics that are not covered or only touched upon, including Family Businesses, Direct Selling, Franchising, and Social Entrepreneurship. A cross-disciplinary approach that blends Entrepreneurship with specific disciplines should be developed to meet the needs of both business and non-business graduates. The growing number of high quality MOOC offerings can supplement many different courses. xMOOCs can become a complementary solution or an alternative for EE in smaller HEIs, in both business and non-business disciplines (Welsh, 2013). Licensing rights for MOOCs can be a viable solution to grow innovative course development and a generation of entrepreneurs in academia.

The modified EE landscape, with its multiplying channels can be used as a valuable source for feasibility analysis, business plan competitions or for real businesses to benefit from consulting through classes, such as the Small Business Institute’s® “Project of the Year” competition. This competition, organized yearly by the Small Business Institute®, awards the best practical consulting project both at the undergraduate and graduate level in three categories: feasibility/business plan, specialized project, and comprehensive project. This would have the effect of spreading the competition globally with MOOCs as an integral part of the total learning experience, lining up entrepreneurs and students to work on real live projects online as well as the potential of multi-cultural student teams. More information can be found at (http://www.smallbusinessinstitute.biz/Default.aspx?pageId=1266007).

The credential issue (courses for university credit) has little importance for a large cadre of learners, seniors, young entrepreneurs, and for many people in developing countries with low or no access to other forms of EE. The main goal for these individuals is learning and developing their knowledge and skills using all available channels.
MOOCs will not replace entirely traditional EE learning but can provide an affordable, viable, flexible, complementary alternative with global reach and can respond, at least partially, to the high demand for entrepreneurship and business knowledge. Evaluating the effectiveness of MOOCs’ use in the teaching and learning process in higher and entrepreneurial education will require future in-depth research.

PERSONAL EXPERIENCE WITH AN ENTREPRENEURSHIP xMOOC

“Developing Innovative Ideas for New Companies” is a six week course available on Coursera- a free xMOOC that one of this paper’s author completed from January to March, 2013, in order to experience it first-hand. It was announced that out of over 85,000 learners enrolled from around the world, 63% were taking this EE-related course for the first time and 45% of those enrolled are planning to start a business in the near future. Those enrolled ranged from teenagers to retirees, with the 25 year-old segment being the most common. Sixty-one percent were male and 39% female. The course is offered by The University of Maryland and taught by Dr. James Green, the Director of Entrepreneurship Education at Maryland Technology Enterprise Institute, an award-winning program recognized by the U.S. Association of Small Business & Entrepreneurship (www.usasbe.org). Students were not required to have any prior coursework or knowledge of entrepreneurship. The course covered the basics of how to identify and analyze entrepreneurial opportunities, and covered the main elements of value propositions, customer segments, strategic alliances, business modeling, basic business planning and raising capital.

Every week there were four to six structured videos of eight to twelve minutes each to watch, with interspersed mini-quizzes and assignments, with due dates and hard deadlines. Each segment provided the opportunity to integrate and apply the learning content. Two books were suggested for additional reading. Assignment submissions were accepted only after checking the code of honor box. Peer grading (based on crowd sourcing technology), to enrich the learning experience was used twice. Three options were available worth 0/1/2 points according to each criteria and a comprehensive explanation of each option was provided. Each time, the evaluation by four unknown digital peers’ was mandatory in order to have your own work graded. Extra-assessments were encouraged and rewarded if completed. Peer grading was required at the end of week four for the Business Model Canvas to develop your own entrepreneurial idea; nine evaluation criteria were used, corresponding to the model’s nine filled-out blocks. At the end of week six, peer grading was mandatory for one business plan evaluation (with a choice from a collection of 500 at http://www.bplans.com/sample_business_plans.php). This required reading at least five business plans, including your own assignment as well as a minimum of four others in order to properly grade the four peer evaluations).

Working ahead was encouraged but not rewarded. The average weekly workload was four hours, probably considerably higher for those less experienced in the field. Feedback was collected at the end of the course through an online survey. If the learner had a total score of higher than 70%, an electronic, printable Statement of Accomplishment was issued with the provider’s signature. Interaction between learners was intense and visible on the Forum with six sub-forums, having all up-to-date features. Study groups (over 200) were formed (both virtual and physical), displaying a high diversity among learners (i.e., age, nationality, status) and based on diverse grouping that included the “Spanish Speaking Group,” “Customer Discovery,” “Tomorrow’s Meeting in Barcelona,” “Join us in our LinkedIn Group – Ideas Ahead,” “Mother CEOs Study Group,” “Skype International Study Group,” “Web-based Start-up,” among others. Even though direct interaction with the instructor was not possible, he proved to closely monitor the course participants’ progress. Weekly encouraging and detailed messages were sent out regarding different course aspects ranging from a welcome message, assignments, deadlines, to the percentage of remaining students taking the course.
Most of the previously outlined benefits could be experienced, including the quality of course content, flexibility, high reach and interactivity with a global community leading to an enriching learning experience, and potential business ideas outcomes. However, weaknesses included a slight mismatch of the course title with its content (pointed out on the forums by learners expecting more on innovation); a relatively static image during video presentations, and a high level of opportunity to cheat.

CONCLUSION

MOOCs are a new and amplifying phenomenon, in the context of shrinking budgets and rising education costs. The xMOOC type, encompassing Coursera, edX, and Udacity advanced online platforms, with their free best quality content, have the potential to generate major changes in both higher education overall and specifically entrepreneurial education all over the world. Universities will need to adjust their online and on-campus education strategies. The most affected will be low ranked universities, situated mainly in developing countries and also regional universities that have the propensity to be combined with other universities in state systems, for example.

Both cMOOCs and xMOOCs are a valuable and rapidly expanding opportunity for complementary Entrepreneurship Education, reaching a large and diverse audience that can enjoy the freedom of self-paced instruction with the social support of the learning network and online peers. Further research is needed in order to identify the amplitude of this phenomenon and evaluate the appropriate time frame for the required changes, as well as the effect of MOOCS on the overall learning environment.

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Recovering from Poor Hiring Decisions: A Case in Direct Sales

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The focus of the case is on making recommendations regarding staffing and sales force problems that plagued a start-up direct sales company. Within three months of founding a jewelry business, the owners of the company were encountering numerous problems with their staff and their sales force in terms of integrity, morale, and motivation. Of particular interest here is the difference in employee and independent contractor status of sales people and staff, which creates problems for the owners in terms of management and oversight. It also deals with the issues associated with finding out that a person who exerts a negative or unethical influence in the company that effectively poisons many others, and, how that issue can be properly (or improperly, as the case may be) handled.

This case demonstrates three typical problems that often plague small businesses. First, small business owners face personnel management challenges in the course of their operations. Usually relying on friends and acquaintances to get a company off the ground, they are often blinded to the weaknesses of their hiring decisions until those decisions have wreaked havoc on the operation, often causing irreparable damage. Second, most small businesses do not normally have policies prohibiting in-office romances, but perhaps they should. Those relationships can ultimately develop, and when they do they can cause serious problems for the owners and for the business operation. Third and finally, it is often the case that a small business owner who is desperate for cash flow will compromise their principles in exchange for immediate results. The business examined in this case shows us why that type of flexibility is neither desirable nor profitable. Turning a blind eye to rule and policy infractions costs a great deal of owner time and attention in the long run, plus it also lowers the morale of those who are trying to follow the rules.

This case is suitable for analysis by undergraduate students in human resources management and also students of entrepreneurship with a focus on the mistakes that can be made very early on in the structure and culture of an organization. The situation described is based on actual events, although the product line, dates, and names have been changed to protect their identity.

COMPANY INFORMATION AND BACKGROUND

Lexi Lewis and Samantha Chandler are the co-founders of CharmedALot, a start-up jewelry business in Wyoming. The company launched August 1, 2011, with 22 independent distributors—hereafter referred to as “designers”-- who signed on to the ground floor opportunity.

It soon became apparent that some staffing decisions were backfiring on the owners, but, they felt stuck in terms of how to deal with them. This stuck feeling was in part because of lack of experience, and in part because the problem was complex and deep rooted from the beginning. The owners needed to find a way to continue motivating their sales force while also getting their behavior and business practices in line with the image the company wanted to project in the direct sales industry.

HISTORY AND OWNERS

Lexi Lewis, a young woman in her late 20’s, had a vision in 2010 for a design-your-own-jewelry business. After finishing her college degree in fashion merchandising, and, operating a small retail shop, she had decided that a design-your-own jewelry party concept would be both popular and profitable. With some financial backing from a family member, she began a small start-up enterprise called “Bracelet
Factory,” which offered in-home parties where guests could design their own bracelets by selecting from several hundred charms and pendants. The workers at the party then assembled the jewelry while the customers waited. Her parties were well-attended and her calendar stayed fully booked. She realized she was on to something that had real potential for future growth. She dreamed big, and envisioned a national company that captured the jewelry market by storm.

Realizing that she needed a partner with a business background, she soon brought in Samantha, an acquaintance she had known for several years. Samantha was a college professor in business who enjoyed amateur jewelry design and other types of art. When Lexi approached her about the business concept, Samantha couldn’t resist. As soon as they started brainstorming about the operation, Samantha realized just how bored she was with academia, and what was initially supposed to be “just an investment” became a passionate undertaking for her.

The two began by contributing $10,000 each to the business, and, working out of their homes to plan and make decisions. They each had a 50% ownership in the business as equal partners, and to protect themselves from unlimited personal liability they formed a Limited Liability Corporation (LLC) in Wyoming. The advantages of an LLC for small businesses are well-documented, most notably that they offer considerable flexibility and informality, while also protecting the owners from the unlimited personal liability associated with a regular partnership ( Weiner, 1993). As a plus, the two owners almost always agreed on everything, and, when they did not agree, could amicably reach a compromise 99.9% of the time. This made for a very smooth and enjoyable business relationship.

**CRITICAL DECISIONS AND ROLES**

Lexi took the title of CEO, as she was the visionary and had the eye for fashion. Samantha worked on the more technical and legal side of the business as Chief Operating & Financial Officer. They each took a stab at crafting a business plan, but in the end their ideas just weren’t far enough along to really make sense yet. While the business plan would eventually come, it just wasn’t “there” yet at this stage of the game.

Although most friends and family were quite supportive of their decision to launch a business, others discouraged them from trying to do so in one of the worst economic downturns in history. The objections of friends and family helped them realize that as they planned their company, they should make it appealing to everyone—even those affected by an economic recession. They began by analyzing the jewelry industry, which has two major market segments:

- Fine jewelry, made of precious metals such as gold, silver, or platinum, or, combinations of those metals. This jewelry may also include precious or semi-precious stones, and, is divided into two categories:
  - Precious metal jewelry: items such as necklaces, bracelets and rings.
  - Precious metal accessories: brooches and pins, encrusted wallets and cases, watches and bands, cuff links and other accessories.

- Fashion or Costume jewelry: jewelry made of metal alloys or other non-precious metals and coatings, or, that contain very small amounts of precious metals (Shim, 2011).

During recessionary times, consumers will reduce spending on the luxury items known as fine jewelry, but they will generally continue to spend money on costume jewelry as it serves as affordable substitute (Shim, 2011). This led the women to conclude that affordable, costume jewelry was the best type of product to focus on in the company.
The next major decision they had to make was how to distribute their products. Lexi, with some retail experience, knew that getting into the fashion market and selling the concept to retailers would be expensive and time-consuming. It would involve money they didn’t have, and, it would take so much time to get there that someone with more backing and capital would surely take their great idea and beat them to market. They needed to launch quickly, and with the bare minimum investment possible.

Realizing that the parties Lexi had thrown with Bracelet Factory were really successful, the women decided to keep focusing on distributing the products in a party environment. This led to one logical choice of distribution channels: direct sales (also sometimes called network marketing).

The next phase of their market was to identify all the direct sellers of jewelry in existence at the time. Samantha worked to find out about all the companies that she could, and solicited brochures and information about each one. It seemed that no one had developed the concept that Lexi had. All the jewelry direct sellers were focused one of three major product lines: high-end sterling silver jewelry, mid-priced items often with personalization or customization that could only be offered through a special-order type arrangement, and, budget-priced “fashion” jewelry that was ready-to-wear and did not offer personalization options. The women concluded that there simply was not a company that offered what they proposed to offer: a build-your-own jewelry design experience in a party setting that was both fun and affordable.

To gain more experience and familiarity with what the independent distributor role would look and feel like, they joined two of the direct sales companies that had low-priced starter kits. The women devoured each package, taking photographs, noting what was desirable and what was not, and, paying careful attention to the legal documents and rules communicated by each company.

In general, they set out to learn as much as they possibly could about the direct selling industry. With some of their very limited investment capital, they hired Bob Whipple, a seasoned veteran in the direct selling industry. Bob gave them guidance and advice along the way as they created their company.

THE DIRECT SELLING INDUSTRY

Direct selling is defined as face-to-face selling away from a fixed retail location (Peterson and Wotruba, 2001). The Direct Selling Association (www.DSA.org) is the industry’s trade association, and, its members include seasoned veteran companies including Avon, Tupperware, and Mary Kay, plus relatively new companies started within the past decade that include Thirty One, Perfectly Posh, and Initials, Inc. Direct selling is currently outpacing the U.S. economy in terms of growth, and, is almost a $30 billion industry (Direct Selling, 2012).

In direct selling, the company allows independent contractors or distributors to sell its products. These distributors are compensated not by salary but by commission on products sold. Direct selling offers several advantages, including flexibility in terms of the time sales are made and the location where they are made, and it allows the consumer to have a face-to-face interaction with the seller and the products, thus utilizing all communication senses. It also affords for a thoroughly-customized sales presentation targeted to a particular buyer, and it is a perfect example of “relationship marketing” (Petersen and Wotruba, 2001). The flow of products to the customer through a direct selling company is illustrated in Figure 1.

The DSA further categorizes direct sellers as either person-to-person or party plan. Person-to-person has historically been called multilevel marketing (MLM). The fundamental difference between the two is that party plan companies tend to focus the distribution of products around parties where the party host can earn free gifts and incentives. Customers come to the host’s home or office, or they may even...
participate in what’s known as a catalog or online party where orders are taken without an actual party event being held. These products are also very good sellers at fairs, shows and bazaars, especially if the distributor stocks a cash-and-carry inventory. Many party plan distributors do not stock an inventory, but instead display sample items and then accept orders for the pieces customers wish to purchase. Most party plan companies do not require the stocking of inventory. Party plan companies often distribute goods that are not every day or routine purchases, such as purses, cookware, and lingerie. These items, as special treats for the purchaser, are more conducive to a party or special occasion atmosphere.

Figure 1: The Relationship Between the Company, The Distributor and the Customers

MLM companies tend to focus more on the building of a sales team, and rarely sponsor or encourage parties. They may be displayed or marketed at fairs and shows, but, they normally do not stock inventories for cash-and-carry sales. MLMs tend to distribute more mundane products such as household cleaners, vitamins, and necessary services such as phone service and life insurance.

ADVANTAGES OF DIRECT SELLING

Direct selling offers a distinct financial advantage to a company with limited cash available. Direct selling uses independent as product distributors (sometimes called “demonstrators” or “Designers” or other titles). These distributors are paid on commission, so the company only pays compensation when actual sales are made. is considered to be ideal for people who want to:

- Own their own business
- Make a relatively small cash outlay to begin their business operation
- Set their own goals and objectives for income
- Meet and socialize with other people
- Have a flexible schedule

There are two main activities of distributors in direct sales: selling the products and recruiting others to become a part of their sales team. Any one distributor may recruit any number of people to sell under them. Those recruits will in turn likely build their own teams, although some people do not wish to engage in the building of a sales team and will instead focus solely on selling the products.
Figure 2 shows an example of a sales team in direct sales. The direct selling industry likes to use the term *genealogy* for the structure of the sales force because it resembles a family tree. Generally, each level of the hierarchy’s sales will generate at least a small commission for the sponsor immediately above it. In this illustration, we would expect Art to receive commissions off of the sales of everyone in his downline.

**Figure 2: Direct Sales Force Structure**

The start-up costs for a direct sales company are much lower than for starting up a company that will distribute product through retailers. There are two main reasons for the lesser cost of starting a direct sales company: the cash inflow from the distributors who sell the company’s products, and, the reduced cost of staffing. One of the most unique aspects of direct selling is the fact that the sales force consists entirely of independent contractors who purchase a business kit to begin selling the company’s wares. Thus, cash flows into the company fairly early on in its life cycle.

Because the sales force consists of independent contractors, the company has little control over what they do, but, also has little commitment in terms of expenses for compensation and benefits. In an independent contractor relationship, the company can set certain guidelines and parameters for the conduct of the designers, but they otherwise cannot control how or when the designer sells the products. The company also cannot require daily or weekly sales quotas, and usually is quite liberal in what is required to maintain an active designership with the company.

Designers cannot be required to participate in training, have any particular level of education or continuing education, and as a general rule the application process to become a direct sales distributor for most companies is very simple and requires no background check or personal information other than a Social Security number and basic contact and demographic data. To best summarize an independent contractor’s status, the Internal Revenue Service notes the following:

> “The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done”

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In exchange for the lack of control over the sales team, the company is also free from the traditional responsibilities of hiring employees. The independent contractor relationship precludes payroll taxes, income tax withholding, Social Security withholding, workers compensation insurance, benefits, office space, company cars, and other costs of staffing. This is one of the main reasons the start-up cost of a direct sales company is so much lower than that of a retail-based company with a full-time sales force that operates at the demand of the company.

Because they only had $20,000 capital to start their company with, Samantha and Lexi decided to go with the direct selling approach for their business. Given the recessionary economy, they wanted to offer a line of jewelry that most women could afford. These lower-dollar purchases would generally not be conducive to the high cost of printing catalogs or placing advance and would more likely be impulse buys. Thus, they chose the party plan model and structured the business to require the stocking of at least a certain amount of inventory by each designer.

CONCERNS ABOUT DIRECT SELLING

While direct selling is legal, this distribution channel can often run afoul of the law by becoming or at least resembling an illegal pyramid scheme. This was Samantha’s main objection to the direct sales structure in the beginning.

Vander Nat and Keep (2002) highlight the important differences between legitimate MLMs and pyramid schemes, which is also a point of concerted interest on the part of the Federal Trade Commission. The key difference is illustrated by what is known as the Koscot test (FTC v. Koscot 1975). Koscot states that a pyramid is one in which participants pay money to sell a product and they also get the right to receive rewards for recruiting others that are unrelated to the sale of actual products to ultimate users. In the 1990’s several court rulings affirmed Koscot and ultimately the courts determined that the earning of recruitment rewards unrelated to the sale of products to end users was the sine qua non for pyramid determination (Vander Nat and Keep, 2002). When structuring the company’s compensation plan and policies and procedures, Samantha was careful to make sure that selling jewelry alone could generate an attractive income, and, that recruiting designers to build a sales team was in no way rewarded except when actual products were sold.

Other concerns about the direct selling industry were high pressure sales and recruiting tactics, the failure rate of so many direct sales distributors, and the fact that many companies force distributors to purchase large quantities of inventory that ultimately the distributor cannot sell and gets stuck with. Upon Lexi’s agreement, Samantha authored a business plan draft that emphasized certain core values and beliefs the company would observe that would hopefully avoid or at least minimize these negativities. This led to the creation of a set of corporate policies in a Designer Policies and Procedures Guide (hereafter referred to as “the Guide”) that would hopefully prevent the worst practices associated with direct sales from occurring at CharmedALot.

For example, the company offered an inventory buy-back policy (at 95% of the purchase price paid) to assure designers that the company would stand behind its merchandise in the event it didn’t sell as expected. Further, the upline commission on any such returns would also be docked accordingly to avoid high-pressure sales tactics on the part of recruiting designers. Selected excerpts from the Guide are included in Appendix A.

Samantha also knew that unethical business practices on the part of independent contractor sales people could ultimately translate into a loss of customers (Chonko, et. al., 2002). A Code of Designer Conduct was established and communicated to all designers from the time they joined the company and its importance was emphasized, especially with respect to business ethics and integrity. While the Code
was no substitute for reading the Guide, it did provide designers with a simple list of do’s and don’ts that, if followed, would result in overall compliance with the Guide’s terms and conditions. The Code can be seen in Appendix B.

One important provision in the Guide was a noncompete clause. The owners felt strongly that their designers should not sell other lines of jewelry. The owners felt that selling a competing line of jewelry products would create an inherent conflict of interest for the designer, and, could ultimately cause confusion for consumers who might mistake someone else’s product for a CharmedALot piece. Bob, the consultant who reviewed their designer code of conduct and policies and procedures manual, assured them that such a clause was common and enforceable, even though the courts traditionally frown upon such agreements in regular employment contracts (Garrison and Wendt, 2008).

THE TEAM & THE OFFICE

Lexi and Samantha would both play major roles in the organization’s day-to-day operations, but felt that an additional person was needed to oversee and manage the designer sales force. A friend, Delia Crosby, was selected for this role. Delia had worked with Lexi on the Bracelet Factory, and prior to that had over 20 years of experience in retail operations with a national jewelry retailer. Delia did not have any experience in direct sales. But, Lexi felt that since Delia had been a good friend and was in search of a new career after being a stay-at-home mom, that it would be a good decision to hire her.

Delia was hired as an independent contractor and promised 5% of monthly revenues in exchange for serving as the downline director/sales force manager who would recruit, train, and oversee the independent designer sales force. She was assured upon hiring that she could work from home as long as her tasks were performed and her job completed. Unfortunately, as the entrepreneurs soon learned, not having a written job description with a clearly defined list of duties for Delia to fulfill each week would result in serious problems. In spite of Samantha’s business background and training, neither she nor Lexi felt it necessary to draw up a carefully worded employment contract with Delia, given that she was a long-time friend.

The company then hired Rita to work part-time for $10 an hour to help with product assembly and other miscellaneous tasks as needed. Her position description and responsibilities were also not put in writing. Rita was 21 years old and a full-time college student. She also had worked at Bracelet Factory and Lexi had always been pleased with the work she performed and her overall demeanor and personality. Rita and Delia also got along well so it seemed like a logical fit for her to be a part of the team.

The women then hired a bookkeeper, Rodney. He was a former president of the local Chamber of Commerce. Also, his wife had signed up to become one of their first designers, so it seemed like he was invested in the success of the company and a good fit for their needs. He agreed to charge $25 an hour, instead of the usual hourly rate of $50 for most other bookkeepers in town.

One major issue the team had was finding a place to house inventory and work space. Lexi and Samantha did not have adequate space in their homes for the entire operation. Meanwhile, Delia had a large unused space upstairs in her home that would allow for storage of the products. She and her husband volunteered to let CharmedALot use the space rent-free and without any responsibility for monthly utility bills. Lexi and Samantha really felt that was the only viable option since the rest of their capital investment needed to go towards building inventory, and, creating the business kits that would be distributed to the first designers who joined the company.
PRE-LAUNCH

STRUCTURE

Having agreed on a direct sales model with a sales force of independent contractor designers, the two women set out to market the CharmedALot business opportunity to all their friends and relatives. To explain how the business model was structured, the women designed a Power Point presentation and hosted informational meetings. They showed the participants Figure 3 to clearly delineate the relationship and to emphasize that the company did have a solid business plan in place and a well-defined structure.

Figure 3: Contractual Relationship between Company and Designers

THE SIGN-UPS

The initial cost to become a designer was $499. This fee included $1,250 of retail inventory, plus a retail display supplies, sales receipts, and other essential business supplies that a designer would need to get his/her business off the ground. The kit came with a 30 day money-back guarantee, and, the company agreed to buy back unwanted inventory at 95% of original purchase price if a designer decided to leave the company.

PREPARING FOR LAUNCH

Twenty-two (22) people signed up to become designers, and they were promised their business kits on or before August 1. Lexi, Delia and Rita worked during July to prepare inventory and arrange the business kits for the designers. Samantha’s stayed busy crafting corporate documents such as the the Designer Policies and Procedures guide and the Code of Consultant Ethics.

In direct sales the key to growth and success is the recruitment of new designers, who should in turn then recruit new designers, and so on and so on. That was, in the case of CharmedALot, supposed to begin with Delia as the sales force director. As most people do in sales, she began by recruiting some of her friends, like Raegan and Zoe. Raegan and Zoe helped with business kit preparations at Delia’s house, and were compensated in food, drinks, and even on occasion free inventory items that Lexi voluntarily provided to them.

THE GOOD TIMES

The start-up was just plain fun for everyone. The women often commented on how much fun it was to work together, and, how promising the future seemed for them. Many felt it wasn’t really even like work, but rather just a bunch of friends getting together to talk and chat while getting something accomplished. No one appreciated this more than Samantha, a student of the benefits of positive corporate culture. Sadri and Lees (2001) established that a positive corporate culture resulted in a competitive advantage for the company. In her mind, happy and comfortable employees were a critical component for success. It seemed they were off to a good start in this regard.
When Lexi would go over to Delia’s house each day to work on the inventory, fill orders, etc., she would often find Rodney and Rita there. Rita was ultimately turning in those hours (as many as ten or twelve per day) for compensation at $10 an hour, although Lexi really didn’t know how much she was actually working. Delia was, almost daily, serving them breakfast, snacks and smoothies, and even cocktails. Within about two weeks, they had moved all their daily work tasks out of the upstairs warehouse area and downstairs near the big screen television.

Because Rita was being paid by the hour, Lexi felt it was inappropriate for her to be engaging in these activities while on the clock. But, since everyone else was an independent contractor, it was difficult to insist that Rita work upstairs alone in the dedicated warehouse area. Lexi did not want to rock the boat and felt that as long as work was getting done, she should probably relax and not dwell on the issue.

Even though Delia had no reason to report to him or share information with him, she and Rodney spent an inordinate amount of time together. Although both were married, they were often seen very physically close to one another when they didn’t realize anyone else was watching. For instance, one afternoon Lexi walked in unannounced to find Rodney and Delia in the kitchen. Rodney was rubbing Delia’s shoulders, but as soon as Lexi made her presence known, the two separated abruptly. Samantha and Lexi soon agreed that it was highly probably Delia and Rodney were involved romantically.

The possibility of their sales director being in an intimate relationship with the bookkeeper when both of them were married to other people was initially a concern for the owners. But, they felt they were not in a position to make demands of the man who held all their financial information, nor the independent contractor who stored all their inventory in her house on a rent-free basis. Plus, everyone was happy enough and the goal of having a positive and encouraging environment for the company was always kept in mind by the Lexi and Samantha. They decided to adopt a sort of “don’t ask, don’t tell” policy where these two were concerned, and stayed focused on the business at hand.

THE LAUNCH

The business launched on August 1 without any major problems. The 22 founding designers got their sales kits and quickly began marketing the products. Several of them were eager to begin recruiting new designers. Raegan and Zoe were two of the most successful at that task. Raegan was, as mentioned previously, a close friend of Delia’s. And, although Delia had not known Zoe before the company launch, Lexi did find Zoe visiting with Delia and sharing in cocktails on several occasions.

At first, Delia seemed eager to enforce the Code of Designer Conduct. Yet, reports of designers violating its terms quickly began pouring in from other designers, and, indirectly through unhappy customers who felt they had been misled by some of the designers. Most of these complaints involved Raegan, along with her first recruited designer, Wanda. Zoe’s name was also mentioned frequently in these complaints, and she was rumored to be selling other lines of jewelry in direct violation of her contract with CharmedALot. No proof was found of this early on, but, the rumors flew and Delia assured Lexi and Samantha that she was keeping an eye on the situation and had it under control.

THE HONEYMOON IS OVER!

Lexi was beyond frustrated with Delia within weeks after the launch. In addition to not appearing to have any control over the conduct of the designers, she did not produce or distribute any kind of training materials to help new designers succeed and learn their products and the business itself. Her record keeping skills were disappointing, as designer contracts and other important documents were often misplaced. Some of the designers reported to Samantha that they would try to reach Delia for assistance with various issues and she would not return their calls.
It soon appeared that Delia was primarily socializing with Rodney and Rita, and then dabbling in a few of her job responsibilities when it suited her. Both Lexi and Samantha were starting to wonder if they had made a bad decision in choosing Delia to oversee the sales force. They agreed that they had probably not been clear enough in outlining their expectations for her, and, so they tried to make it clear to Delia that they needed certain information, and reports, and projects completed, each week. Although she would promise to complete those items, they never seemed to get done.

Just four weeks after the company had launched, Delia announced she was taking a two-week vacation with her husband to Ohio to visit relatives. She said she would still be working while she was away, but that she would not have internet access and could not be reached by e-mail. The owners admittedly didn’t know what work she could or would do there, but felt they had no right to disagree with her, again, because she was an independent contractor who did not have regular required work hours. Meanwhile, they knew she would expect her full 5% of sales that took place in her absence.

Samantha and Lexi became extremely worried when, as her vacation departure date approached, Delia refused to give them a phone number where she could be reached. She indicated that the trip was “family time” and that she should not be disturbed. But then Delia informed Lexi that she would not give her a key to the house where the inventory was. Instead, Rita would be house sitting for her and could let Lexi in anytime she needed access.

It should be noted that at this point the inventory had grown, mostly through a lot of hard work and sweat equity and labor on Lexi’s part, to over $50,000 in wholesale value. The realization that all of it was in a house Lexi couldn’t access without the permission of one of her own employees was troubling to say the least.

Lexi suggested to Samantha that it was time to start trying to find a new location for their office and warehouse space. Samantha wasn’t too sure that was necessary until the day she spoke to Delia about possibly moving at some point. When she told Delia that they would eventually need to relocate to a more permanent and “professional” location, Delia replied, “If you move the inventory out, what job security do I have?” Samantha immediately agreed with Lexi that it was time to move, and move quickly.

As if there weren’t enough problems, Rodney was showing signs of distress and upset about Delia’s two weeks away with her husband. He was moody, upset and had a quick temper with everyone. Lexi and Samantha feared that at some point there might even be some sort of altercation between Rodney and Delia’s husband. That was the least troubling of the scenarios, though. “What if Delia’s husband throws her out... and then changes the locks on the door and we can’t get our inventory?” said Lexi. Samantha replied, “What if her husband blames us for Delia and Rodney being together and he throws our $50,000 of inventory out with his regular garbage?” The scenarios they kept coming up with always seemed to involve someone changing the locks on the door of the house and/or denying them access to the inventory, or, intentionally destroying the inventory. None of those scenarios allowed either owner to get much sleep at night.

At one point during this time, Samantha curiously asked Lexi why Delia left a retail career. Being inexperienced at hiring and staffing, it really never occurred to her to ask about this previously. Lexi said Delia told her she was fired from the retail jewelry store chain for “speaking [her] mind.” Samantha said, “Did you check her references with the jewelry store?” They both realized it was far too late to do so.

While Delia was on her trip, Lexi found a small office space that would accommodate their needs. It was affordable and conveniently located. Lexi showed it to Samantha, who instantly approved of it. They signed the lease and made arrangements to get the inventory moved as soon as Delia returned from her
trip. As soon as Delia returned from her vacation, the ladies thanked her for her hospitality, and said they have overstayed their welcome. They told her it was time to move to a more permanent location for their business.

Delia showed visible signs of anger after hearing about the move, but never came out and said anything specific regarding their decision to move out of her house. While she did continue to draw her 5% of gross revenues as compensation for her job, she did less and less as the weeks passed. She found reason after reason not to visit or work at the new location. She showed little to no sign of doing any work for the company after the move. Although she received work assignments and said she completed them, they either couldn’t be found, or, they seemed to be completed hastily and without much effort or attention. In particular, the tasks necessary for organizing and managing the sales force were left completely undone. The owners, after over two months had passed since the launch, still did not have a master list of their designers. Delia had all that data in her possession and kept “forgetting” to bring it by the new office.

Lexi and Samantha did not want to fire Delia because she was a friend, and they felt a sense of obligation to her after she let them use her house rent-free for several months. But, at the same time, they could not keep handing her 5% of revenues to do virtually nothing. So, they decided to offer Delia an hourly rate at the office and put her on as an employee, thus eliminating her independent contractor status. Although neither woman expected her to like the news, they did not expect the reaction they got, which was complete silence, followed by angry comments made to mutual acquaintances about how awful CharmedALot was.

Samantha and Lexi both tried communicating with Delia via e-mail to try and get some closure on the relationship, but never got a response. Suddenly, Delia began mailing in receipts for various expenses she had incurred before, during and after her trip to Ohio, plus several hundred dollars to clean the carpets in the room upstairs where the inventory had been stored. The owners were very upset and not sure that the expenses were even legitimate. They instructed Rodney not to write checks to Delia until they had time to think it over.

Rodney became quite vocal about the fact that the owners should pay her every penny she had requested. He said they owed it to Delia, and that they were being petty by even questioning the amounts. It was clear that Rodney—the man who had access to all of their financial information and bank accounts—was loyal to Delia.

Samantha refused to pay any of the invoices until all property belonging to the company, including missing papers and contracts, were returned to the office. Eventually, Delia brought the items to the office. She received her reimbursements and final paycheck, and the owners never heard from her again. However, their friends and designers who knew Delia frequently commented on their encounters with her, and how she referred to CharmedALot and its owners very negatively. Rita had become quite close to Delia during the time they worked together, so she also resigned as soon as Delia left.

THE REAL DRAMAS BEGIN!

PROBLEM #1: RAEGAN & WANDA

Raegan was an old friend of Delia’s, which is how she ended up joining CharmedALot in the first place. When Delia left, the owners generally expected Raegan to leave, and to probably convince her best friend, Wanda, to also leave the company. They were surprised when Raegan stayed and continued working her business, especially since Raegan and Delia were seen around town frequently having lunch together. Knowing what hard feelings Delia had towards the company, Lexi and Samantha were both puzzled by Raegan’s continued relationship with them.
Meanwhile reports were coming in from many people that they had seen other designers selling fakes of the CharmedALot products that they themselves had made. About a month after Delia left the company, Lexi got a call from a wholesale supplier who said someone, later identified as Wanda, was in their store purchasing the raw materials to make CharmedALot products using the business’ tax certificate. As it turned out, Delia had given Wanda a copy of the tax certificate.

When Wanda was confronted with this situation, she indicated that Delia had previously given her the tax number, and told her it was no big deal to use it for personal purchases. But, Wanda was still buying a lot of CharmedALot products and contributing significantly to the company’s revenue, so Lexi was hesitant to terminate her contract or otherwise alienate her after all the other drama that had occurred.

PROBLEM #2: ZOE

Zoe was a dynamic sales person and recruited over a dozen new Designers in a matter of weeks after the company launched. She was clearly going to be an important source of growth for the company, but that would not be without a significant price.

When the company had not been launched even thirty days, Delia got word that Zoe was selling her own handmade necklaces at the same parties, shows and events as her CharmedALot products. This was a direct violation of the Code of Designer Conduct. Delia told Lexi that she asked Zoe to discontinue that practice.

A few weeks after Delia left, Lexi went to a craft fair and found Zoe again selling her handmade pieces alongside her CharmedALot. Lexi reminded Zoe of the rules, and Zoe promised it would not happen again, but she also indicated that Delia had told her it was okay to do it as long as it was kept quiet from other designers.

For months after that, reports continued to come in that Zoe was continuing to mix her handmade jewelry with the CharmedALot inventory. Many of those reports came from other designers who were upset about the company’s failure to enforce its rules. Some of them were actually members of Zoe’s team and had first-hand knowledge of her activities.

Lexi and Samantha were torn over the issue. As much as they wanted to enforce their rules evenhandedly, it was difficult to demand too much of Zoe because she continued to recruit a significant number of women to join the CharmedALot sales force. The company was growing rapidly and many of the top performers were on Zoe’s team.

The fear that Lexi had was that if they alienated Zoe, they would lose all of her sales team. The fear that Samantha had was that if they allowed Zoe to continue violating the rules, they would alienate designers who were following the rules. There was one thing the two did agree on, and that was that her disregard for company rules would ultimately poison her sales team in terms of how they viewed the corporate rules and procedures, and, they needed it to stop.

They explained to Zoe how important it was for her to set an example as a company leader. She assured them she finally understood the rules and that it would not happen again, but rumors continued to surface time and time again that Zoe was disregarding the rules of the company. And then? Things got even more interesting.

Judy, one of the designers on Zoe’s team, who Zoe had personally recruited, alleged that Zoe stole a recruit from her. Judy was livid because after spending over a week recruiting Mary to become a designer, Zoe met Mary for the first time at a party on a Friday night, and on Saturday Mary joined CharmedALot under Zoe. Judy was appalled at the brashness with which she felt Zoe flaunted her new recruit, and said “I won’t keep selling for a company that allows this kind of unethical behavior to go unpunished.”
A week or so after that, another newly recruited designer on Zoe’s team called the corporate office asking to speak to an owner. When Samantha spoke to her, she said the inventory included in her business kit was not what she thought she would be selling. “It’s completely different from what Zoe showed me. She showed me all kinds of handmade jewelry items that are nothing like your products. Now I have spent $499 to join, I don’t like the products I’ve received, and, Zoe won’t return my calls to answer my questions.” As it turned out, Zoe had showed this particular person not CharmedALot jewelry, but her own handmade creations, and convinced her that those were the products she would be selling.

The evidence was clear: Zoe would pretty much say or do anything to make a sale or get a recruit, and she had no regard for the company’s rules or code of conduct. And, her disregard for the rules was starting to impact her downline sales force.

PROBLEM #3: RODNEY

Whenever people wonder why some companies prohibit in-office romances, they obviously have never survived a Rodney-and-Delia relationship! Rodney was devastated that he no longer worked with Delia on a daily basis. And, he further was quite open about his disapproval of how Lexi and Samantha treated Delia. It is not uncommon to have employees take sides with each other against management, but when the person who is turning against you is also the controller of the books and the finances? This is not a good situation to be in, the ladies were sure.

Samantha, having had some training in risk management and employee crime prevention, became increasingly worried about the potential for embezzlement. Although no model fully and accurately predicts employee dishonesty and theft, there are certain common motivations for employee theft. One is revenge, and, it was clear that Rodney felt Delia had been wronged, and, he was, in the process, deprived of her company. Another is personal financial troubles (Alstete, 2006). Rodney had reported that he was losing more and more clients in his bookkeeping business due to the economic slump and its effects on his small business clientele. As a result, Samantha was becoming increasingly nervous and worried about Rodney’s honesty. She kept an eye on the bank account and the books regularly and carefully, but she and Lexi agreed that they could not do that indefinitely.

THE CASE FOR ANALYSIS

Not even one year old, CharmedALot is struggling with so many interpersonal problems that the owners wonder if they can survive. Their top performing sales people have no regard for company rules or the company’s ethical values. And, they have an angry former sales force manager who is still good friends with several of the designers in the company (and, who is also very likely still romantically involved with the bookkeeper). They have a bookkeeper they don’t trust. How do they untangle all these messes and get focused on the business at hand?

INSTRUCTOR CASE NOTES

This case highlights the serious staffing and personnel problems small and inexperienced business owners face when starting a new company. Like many business people, the owners thought it would make the most sense to hire friends and acquaintances. What they discovered, though, is that their decisions had serious and long-reaching consequences.
METHOD

The case is based on the author’s own experience of starting and running a direct sales business, plus the experiences of other direct sellers that she has worked with. The names, dates, and details have been changed to protect identities and trade secrets. Some details are fictitious.

CASE OVERVIEW

We begin with the owners, Samantha and Lexi, staffing a new direct sales company and preparing to recruit a sales force of independent contractors. While they are each knowledgeable about various aspects of business, one area of weakness they face is their inability to screen out employees and to make good decisions about hiring.

Once they have made some bad decisions, the ramifications seem to be far-reaching, including having several designers who were recruited by less-than-ethical people (such as Delia and Zoe). Because the sales force in a direct sales company is structured much like a family tree, the concern is that one person at the top may “poison” the rest of that branch of the tree. This could take many forms, including disparaging the owners, encouraging rule breaking, and intentionally sabotaging the company.

TEACHING METHOD

This is definitely a “real world” type case that does not lend itself to a textbook theory or easy solution. It is designed to illustrate how quickly a business can get into trouble with poor hiring decisions, and, how those problems can become intertwined and complicated very quickly. It allows a lot of room for creative problem solving on how to undo the damages.

This case would make a good exercise in a human resource management class, or perhaps in an entrepreneurship class when focusing on the challenges of a small start-up enterprise. It would also be useful in discussing real life problem solving that might require some creative and unusual approaches.

The suggested teaching methodology is to cover the relevant material regarding best practices in hiring and screening employees, corporate culture, contractor versus employee laws, and human resource management in general. Then, assign the case to the students and assign them this question set:

1. List all the warning signs and mistakes in personnel hiring and management that you see were made in the early stages of the company. What should the owners have done differently in each situation? Keep in mind that resources are very limited, so expensive solutions are not an option here.

2. What are the fundamental differences in managing independent contractors and employees? What is the legal test of an independent contractor, and does CharmedALot appear to have kept a true “independent contractor” relationship with Delia?

3. How would you have handled the situation with Delia once it became apparent that she was not going to complete her assigned tasks and fulfill her responsibilities?

4. Write out a job description and list of responsibilities for Delia that should have been given to her before she was hired. Be as specific as you possibly can, making any reasonable assumptions you need to make about what her duties might ultimately entail.

5. Suppose the owners are convinced, when she departs the company, that Delia has effectively poisoned or corrupted Raegan and Zoe. What options are available to remedy this situation? Which one would you choose, and why?
6. How would you handle each of the three specific personnel problems?

a. Problem #1: What should be done with Zoe? Her sales and recruiting are the best in the company, but, it’s clear that she’s not following the rules and doesn’t intend to do so anytime in the near future.

b. Problem #2: Can you trust Raegan? Explain why or why not. If not, what should you do with her? And, it’s clear that at least one person on her team (Wanda) isn’t too concerned about conducting business legally. What can you do about this?

c. Problem #3: What do we do with Rodney? It’s easy enough to see that the owners need a new bookkeeper, but they worry about retaliation on Rodney’s part if they do let him go. Also, budget constraints may keep them from hiring a bookkeeper and they do not have the in house expertise to take over the books themselves.

Ask them to prepare practical answers to each question, along with an analysis of the “worst case scenario” for their recommendations. For example, if the student suggests firing the bookkeeper, then he or she should also have to determine what ramifications there are for that decision? Or, what if the student feels that Rodney and Delia should both be fired to prohibit the consequences of their relationship—how would the business handle securing inventory and also securing the financial record keeping process?

Because this is such a subjective case that involves so many personalities (and, let’s face it, just plain drama), it might also be useful to have students share their thoughts about each question in a class discussion, with the instructor noting the main ideas/themes/solutions to compile a master list of all the possible angles for approaching each item.

HINDSIGHT IS 20/20

In case students are curious, here’s what the owners actually did, and, what they learned from it.

PROBLEM #1: RAEGAN

The owners invited Wanda (Raegan’s recruit who used the tax i.d. illegally) to leave the company after she misrepresented the facts about another business transaction. Wanda soon registered a new business name in the city that looked like it might be a jewelry business, but there was no proof to establish this. Assuming it was a jewelry business, that violated the non-compete agreement with the company, which specified that Designers could not sell competing jewelry for one year after leaving CharmedALot. But, without proof, the owners really couldn’t do anything about it. And, the reality was that even if they had proof, the legal fees to enforce that provision of the contract would far exceed any gain that might be had from postponing Wanda’s new business for a full year from the date she separated from CharmedALot.

About six months later, Wanda was spotted at a craft fair marketing, of all things, CharmedALot products! Although she was not using the CharmedALot name, she was using a CharmedALot designer to help her sell these items, and that designer was Raegan. Raegan was in blatant violation of the non-compete clause in her contract and in the Designer Code of Conduct. Samantha and Lexi confronted Raegan, she denied any involvement in spite of the witnesses who saw her there. She left the company in anger. Fortunately, there were no more designers on her team remaining, so that poisoned branch of the sales force was finally and completely severed.
PROBLEM #2: ZOE

The owners begged and pleaded with Zoe to observe and adhere to the non-compete clause in the Designer Code of Conduct. Meanwhile, the issue of the “stolen recruit” still had to be dealt with. The owners arranged a conference with Zoe to explain how important they felt she was (because she was very good at recruiting and selling), and, to encourage her to follow the rules and set a good example for her team. She was then informed that Judy and five other people insisted one being removed from her (Zoe’s) downline. Zoe felt it was wrong for Lexi and Samantha to grant Judy’s request, and she expressed her disappointment over their actions. Finally, they told her that if she broke another provision of her contract or the Code of Designer Conduct, they would impose a fine on her of no less than $500. Within two months, she again advertised her handmade jewelry for sale on a social media site right alongside her CharmedALot products. The owners sent her notice of the $500 fine and suspended her contract until she paid it. She immediately resigned. All of Zoe’s remaining team members suddenly lost interest in CharmedALot and resigned or became inactive with the company.

Ironically, the owners were commended by several designers for “cleaning up” the sales force and getting rid of Zoe, Raegan and Wanda. As a result many of them had a renewed interest in and spirit for CharmedALot as a business venture and their increased enthusiasm resulted in higher sales that helped offset those of the departed designers.

PROBLEM #3: RODNEY

Samantha’s theory was that it was best not to give Rodney an opportunity to do any damage to the company when they terminated him. She felt it best to sever all ties with Rodney in the quickest, cleanest manner possible. However, to avoid conflict and hard feelings, Lexi felt it was best to let Rodney go with plenty of notice, which they ultimately decided to do.

They explained his termination as being necessary because Lexi’s cousin was going to take over as the new in-house bookkeeper. Rodney said he understood and would help make the transition to the new bookkeeper smooth and easy.²

As soon as Rodney was gone Samantha launched an informal audit. The good news is that no money was found missing. The bad news is she found thousands of dollars in unpaid sales taxes and invoices that were long overdue. Rodney had not mentioned these items to her or the new bookkeeper. Once all bills were paid the company was thousands of dollars overdrawn and the owners had to frantically raid their personal retirement funds to cover the checks. Fortunately, they recovered from the financial setback, although it took months to do so.

THE OWNERS’ FINAL CONCLUSION

The ultimate conclusion of the owners was that they should have treated all the aforementioned branches of the company genealogy as diseased, and, effectively and swiftly chopped them off. They gained nothing by allowing the problems to drag on as long as they did. The problems did not improve nor did they end up being viewed in a favorable light by any of the parties involved, even though they tried to handle everyone as gently as they possibly could to avoid hurt feelings and anger.

Hiring is now done with extreme caution, and, the owners are much less informal and “family-like” with those they do hire. And, they have stepped up enforcement of their rules, and no longer compromise on them, as they found that doing so in the first place was a costly mistake. After almost 36 months in business, the company is still in existence and growing.

² He then announced that training his replacement would cost $65 an hour instead of his usual $25 an hour. The owners considered three or four hours at that price “money well-spent” and sent him his final check as soon as they could.
REFERENCES


Direct selling association announces U.S. sales and salesforce figures: Direct sales increased 4.6 percent to $29.87 billion. (2012). PR Newswire


APPENDIX A: EXCERPTS FROM DESIGNER POLICIES AND PROCEDURES GUIDE

Section 1. DESIGNER CONDUCT

*CharmedALot will intercede to correct unethical activity on the part of any Designer regardless of rank or achievement with the company. Verified unethical or prohibited activities will be justifiable cause for immediate termination and/or disciplinary action as noted in Section 2.*

A. Fraudulent or Dishonest Behavior

1. Designers agree to represent to CharmedALot all facts and information about any situation with the utmost good faith and highest standard of honest.
2. Designer agrees that any evidence of dishonesty in his/her dealings with CharmedALot is grounds for disciplinary actions that may include immediate contract termination.
3. CharmedALot and the party Hosts/Hostesses you work with are required and obligated to deal fairly and honestly with all customers and party guests.
4. If a CharmedALot Designer ever interacts dishonestly or fraudulently with a customer, or is reported by a customer for doing so, his/her Designership will be immediately suspended for further investigation. If evidence of fraudulent or dishonest behavior is found, Disciplinary procedures (see Section 2) will be implemented immediately.
5. If a CharmedALot Designer deals fraudulently or dishonestly with any customer, CharmedALot’s first priority will be to work with the Consultant’s upline sponsor, the party Host/Hostess, and the affected customer(s), to rectify the situation and deliver the promised merchandise, refund amounts paid, and/or take other steps as necessary to make the customer(s) whole again.
   a. Once customers are made whole, CharmedALot will vigorously and thoroughly investigate the Consultant’s behavior and make efforts to recover any losses the Company has sustained in making customer(s) whole.
   b. If the investigation confirms fraudulent or dishonest behavior, the suspended Consultant’s Contract with CharmedALot will be permanently cancelled and all pending compensation checks or payments will be held and the value of the replaced merchandise and/or refunds, plus any applicable taxes, shipping, handling, or other fees, will be deducted from commissions owed the Consultant.
6. Designers who commit fraudulent or dishonest acts, when appropriate, will be turned over to legal authorities.
7. Designers must never encourage another party to commit fraudulent or dishonest behavior.
8. Every Designer has an obligation and duty to his/her own business, as well as every other Consultant’s business, and the Company as a whole, to report suspected fraudulent or dishonest behavior to compliance@CharmedALot.com

B. Claims Regarding Income or the Business Opportunity
1. Designers are expressly forbidden to imply that the current Compensation Plan will ever be any better or more generous than it currently is.
2. You may not and must not ever make specific claims to demonstrate the earning potential of the CharmedALot business opportunity. You must not ever make specific claims about your own earning information or share your own earning information or the earning information of other Designers with prospective Designers. Many Federal and state laws prohibit such recruiting tactics.

C. Claims Regarding Products
1. You may not ever exaggerate or misrepresent any information about CharmedALot’s products.
2. Information regarding the content of each product, its country of origin, etc., must be represented to customers accurately and truthfully. If you do not know where a particular item is made, you should be honest about that. Do not make something up or otherwise guess at the source or composition of our products.
3. You must never make unfair comparisons between CharmedALot’s products and any other jewelry products.
4. Designers must never promise that any particular products item will or will not remain in stock. The product offerings of our company may change at any time. Designers must never promise that any additional products or services are or will be forthcoming from CharmedALot.

D. Cross-Sponsoring
1. Cross-sponsoring occurs when a Designer knowingly enrolls or attempts to enroll another Designer or a former Designer under him/her when that Designer is enrolled in a different line of sponsorship, or, the former Designer was enrolled in a different line of sponsorship within the past six months.
2. Cross-sponsoring is absolutely prohibited and the use of any means to achieve this, including the use of another name or identification, is fraudulent behavior that will not be tolerated.
3. You are not allowed to demean, discredit, or defame other CharmedALot Designers in an effort to entice another Designer to become part of your downline organization.
4. If you discover cases of cross sponsoring, you must immediately report this activity to compliance@CharmedALot.com
5. Corrective Actions When Cross-Sponsoring is Discovered
   a. CharmedALot may take disciplinary action (see Section 2, “Disciplinary Action”) against any Designer for participating in or encouraging cross-sponsoring activity.
   b. In addition to disciplinary action against the responsible Consultant(s), CharmedALot reserves the sole right, at its discretion, to remove and reassign to another downline any affected Designers. The choice of a new upline sponsor is solely within CharmedALot’s discretion.
   c. Designers involved in cross-sponsoring waive all claims and causes of action against CharmedALot relating to the disposition of the cross-sponsored Consultant’s downline organization.
E. Negative and Disparaging Remarks
   1. About The Company
      a. Negative comments and remarks made about CharmedALot serve no purpose other than to
damage other Designers’ businesses and overall morale.
      b. Comments made in the spirit of improving CharmedALot are appreciated by its owners and
managers and are welcome, but, should be communicated directly to
service@CharmedALot.com
      c. If you disparage CharmedALot in any other way or forum, it is considered a material breach
of this Contract and you will be subject to Disciplinary action as afforded in this Guide.
   2. About Other Designers (also see “Cross Sponsoring”)
      a. Designers are part of a very special and powerful family, and, must not demean, insult,
defame, or otherwise gossip about, other Designers. To do so lowers morale and the
strength of our sales force.
      b. Concerns about another Consultant’s behavior should be directed to
compliance@CharmedALot.com, the Designer herself, or, her personal sponsor.

F. Non-Compete Policy: Current Designers
   1. The Designer agrees that s/he will not use any information or products supplied by
CharmedALot to compete with CharmedALot either directly or indirectly.
   2. It is in the best interest of every Consultant’s business to avoid the appearance of selling other
jewelry products that directly or indirectly compete with CharmedALot products. The following
policies apply to the sale of non-CharmedALot jewelry.
   3. All Designers must not sell non-CharmedALot jewelry without written permission from
CharmedALot.
      a. Selling such products may result in serious disciplinary action.
      b. Permission must be requested by completing the appropriate form and submitting the
required documentation.
      c. The burden of requesting permission and documenting the situation is always on the
Consultant.
      d. The Designer should assume the permission is NOT granted unless and until s/he receives a
written notice from the Company specifically granting such permission.
      e. Any Designer selling any non-CharmedALot jewelry products at any time during his/her
Designership has the burden of proving that appropriate permission was obtained from
CharmedALot before such jewelry was sold.

G. Non-Compete Policy: Former/Terminated Designers
   1. The Designer agrees that he/she will sell no other jewelry products of any kind for the period of
twelve (12) months following the termination of the contract with CharmedALot.
   2. This non-compete policy applies regardless of which party initiates termination of the
Designership.
   3. CharmedALot provides valuable training to each Consultant, and the value of that training is
$2,500. Designers who wish to sell jewelry before twelve months have elapsed are expected to
compensate CharmedALot for the training received.

H. Obligation to Report
   1. It damages every Consultant’s business when individual Designers ignore the rules and policies
of the Company.
   2. If a Designer becomes aware that another Designer is mistreating or neglecting their downline
members, or, is violating CharmedALot rules, policies or procedures, that Designer should notify
the sponsor of the Designer who is in violation, and/or notify compliance@CharmedALot.com
immediately.
   3. Under no circumstances should a Designer take disciplinary matters into his/her own hands.
I. Respect and Support for Fellow Designers
   1. Every Designer is required to ask a new prospect if they are presently working with another CharmedALot consultant. If they are, the Designer should avoid pursuing business with that prospect unless and until the other Designer is notified.
   2. Under no circumstances is it permissible for Designers to knowingly “steal” customers, hostesses, or potential Designer recruits, from another CharmedALot consultant.
   3. Every Designer agrees to educate, train and motivate all downline Designers, whether or not they are/were personally sponsored.

Section 2. DISCIPLINARY ACTION

A. Discipline In General
   1. The owners and managers of CharmedALot implore each Designer to abide by all parts of the Independent Designer Contract to avoid the imposition of disciplinary sanctions.
   2. It is not CharmedALot’s desire to administer disciplinary sanctions on a Consultant; however, in some cases that is the only way to correct improper behavior and motivate Designers to observe and adhere to the Company’s policies, procedures and rules.

B. Disciplinary Sanctions May Include Any/All Of The Following:
   1. A spoken or written warning or admonishment;
   2. A requirement that you take immediate corrective measures;
   3. Imposition of a fine, which may be withheld from bonus and commission payments; and/or temporary or permanent loss of rights to one or more bonus and/or commission payments;
   4. A temporary or permanent suspension of your website, access to the Designer Center, or your ability to place product or business supply orders;
   5. Suspension of your Designer Contract for one or more pay periods;
   6. The removal of one or more Designers and their downline organization from your downline organization;
   7. Involuntary termination of your Designer Contract (in which case there will be no option to sell back inventory to the Company, or to transfer the downline to another party), and,
   8. Any other measure allowed within any portion of the Contract, or which CharmedALot deems appropriate, to equitably resolve injuries caused wholly or in part by your policy violation or contractual breach.

APPENDIX B: DESIGNER CODE OF CONDUCT

To ensure that our designers uphold our corporate values and Code of Ethics, we have established this list of policies. Abiding by these policies will ensure that the designer does business the CharmedALot way.

The CharmedALot Designer agrees to:
1. Read all Company materials, including these Policies and Procedures, and all materials provided in the current version of the Designer Guide.
2. Regularly read all Company e-mails and correspondence.
3. Participate in Company-provided training.
4. Understand and comply with all state, local and federal laws, policies, procedures and requirements.
5. Encourage fiscally responsible behavior among customers and the downline. The use of credit cards to finance large product purchases should not be encouraged by any member of the organization or by any designer.
6. Never identify themselves as employees or legal representatives of CharmedALot. Designers are independent contractors for the company. No employment relationship should be inferred or implied in any way, shape or form.

7. Honor and abide by the terms and conditions of their contract with CharmedALot.

8. Not sell another company’s jewelry products while selling for CharmedALot, nor for at least one year after termination of the relationship with CharmedALot.

9. Respect the contracts of other direct selling companies in conducting business.
   a. If a designer chooses to sell another company’s non-jewelry products, the designer is solely responsible for understanding and complying with that company’s rules regarding working for multiple direct selling companies at the same time.
   b. Designers should never aggressively try to “steal” the designers of other direct selling jewelry companies. Explaining the opportunity with CharmedALot is fine, but aggressive recruiting tactics hurt the reputation of every CharmedALot designer and our corporate reputation.

10. Never knowingly encourage anyone to violate any contract.

11. Not disparage other jewelry product line and companies, or make unfair comparisons with CharmedALot products.

12. Not misrepresent or exaggerate the properties and qualities of CharmedALot products.

13. Provide information about the CharmedALot business opportunity to anyone 18 and over who requests such information.

14. Always ask a new prospect if they are presently working with another CharmedALot designer. If they are, the Designer should avoid pursuing business with that prospect unless and until the other Designer is notified. Under no circumstances is it permissible for designers to knowingly “steal” customers, hostesses, or potential designer recruits, from another CharmedALot designer.

15. Refrain from making disparaging remarks about another CharmedALot designer, CharmedALot, or its products. If there are concerns about another designer’s behavior, a corporate policy, or the quality of a particular product, the designer should report the issue to the company.

16. Make no guarantees to any person concerning CharmedALot products, or earning potential, other than those contained in the Company’s literature.

17. Educate, train and motivate all downline designers, whether or not they are/were personally sponsored.

18. Dress appropriately for the setting of each CharmedALot jewelry party.
   a. When parties are held in a customer’s home, business casual (or better) attire is expected.
   b. When parties are held in an office or professional setting, the office dress code must be observed. The Designer should inquire about this ahead of time.
   c. If a party is held beach-side or pool-side, tasteful shorts, halters, or bathing suits may be worn.
   d. Obscene or profane sayings, slogans, or clothing should never be worn when selling or representing CharmedALot or its products.

19. Accurately complete all paperwork and forms submitted to the company. When in doubt about the proper course of action, designers may contact CharmedALot for clarification and guidance.
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Past Presidents

The following individuals have served as presidents of SBI. Affiliations listed are those at the time of their presidencies.

1976-1977  Rudolph Kagerer, University of Georgia
1977-1978  Lowell M. Salter, University of North Florida
1978-1979  Winston D. Stahlecker, West Texas State University
1979-1980  K. Mark Weaver, University of Alabama
1980-1981  David H. Hovey, Jr., West Georgia State College
1981-1982  Richard D. Lorentz, University of Wisconsin – Eau Claire
1982-1983  Robert Brockhaus, Saint Louis University
1983-1984  Eugene L. O’Conner, California Poly State University
1984-1985  Paul Dunn, Northeast Louisiana University
1985-1986  Robert J. Kerber, Illinois State University
1986-1987  Jack E. Brothers, Calvin College
1987-1988  Harriet Stephenson, Seattle University
1988-1989  Joseph F. Singer, University of Missouri – Kansas City
1989-1990  Dewey E. Johnson, California State University, Fresno
1990-1991  Don B. Bradley III, University of Central Arkansas
1991-1992  Gwen F. Fontenot, Texas Woman’s University
1992-1993  Lynn Hoffman, University of Northern Colorado
1993-1994  Robert A. Kemp, Drake University
1994-1995  Joseph C. Latona, University of Akron/ Ashland University
1995-1996  John R. Kerr, Florida State University
1996-1997  Geralyn McClure Franklin, Stephen F. Austin State University
1997-1998  Charles H. Matthews, University of Cincinnati
1998-1999  Lloyd W. Fernald, Jr., University of Central Florida
1999-2000  J. Douglas Frazer, Millersville University
2000-2001  Joseph J. Geiger, University of Idaho
2001-2002  Roosevelt D. Butler, College of New Jersey
2002-2003  Sherrill R. Taylor, Texas Woman’s University
2003-2004  Abbas Nadim, University of New Haven
2004-2005  James N. Bradley, Central Washington University
2005-2006  Joseph R. Bell, University of Arkansas at Little Rock
2006-2007  Shawn Carraher, Cameron University
2007-2008  Kirk Heriot, Columbus State University
2008-2009  Bruce Kemelgor, University of Louisville
2009-2010  Ron Cook, Rider University
2010-2011  Patti Wilber, Northwestern Oklahoma State University
2011-2012  Stephanie Bardwell, Christopher Newport University
2012-2013  Michael L. Harris, East Carolina University
SBI Fellows

The Small Business Institute® recognizes members whose accomplishments are particularly noteworthy by conferring the honorary title “Fellow”. This is the highest honor that the Small Business Institute® bestows upon a member. The individuals listed alphabetically below constitute those named as Fellows throughout our history.

Don Altman       Fred Kiesner
David M. Ambrose  Chris Kobler
Michael Ames      Richard D. Lorentz
Don B. Bradley III Robert Lussier
Joe Bell          Chuck Matthews
Robert Brockhaus   Eugene L. O’Conner
Jack E. Brothers  Stephen Osborne
Sam Bruno         Howard F. Rudd, Jr.
Roosevelt Butler  Ronald Rubin
Donald M. Clause   Homer L. Saunders
Ronald Cook       Lowell M. Salter
Joel Corman       Pamela Schindler
Richard T. Dailey  Lincoln Simon
Dale Dickson      Leo Simpson
Paul Dunn          Joseph Singer
Lloyd W. Fernald  Ricardo L. Singson
Gwen Fontenot     Harriet Soll
Fred Fry           George T. Solomon
Geralyn McClure Franklin Matt Sonfield
Doug Frazer       Winston D. Stahlecker
Oliver Galbraith III Harriet Stephenson
Frederick Greene  Sherrie Taylor
Michael L. Harris Lyle R. Trueblood
Kirk Heriot       K. Mark Weaver
Lynn Hoffman      Craig Zamzow
David S. Hovey
Dewey Johnson
Robert Justis
Rudolph Kagerer
Robert Kemp
Robert J. Kerber
John Kerr