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

The future depends on our young people and at the Small Business Institute® we are responding to the call to develop programs that will promote the effective education of the millennials we see every day in the classroom. One way we do this is through the Small Business Institute® Journal; in every edition we have at least one article that promotes effective pedagogy. Reviewing the SBIJ archives you will find articles that focus on teaching techniques, case studies, and applied articles that reveal the research of how best to work with students. Furthering this endeavor, we have also instituted a student Small Business Institute® membership. Students can become affiliate members for either one year at $10.00 or two years at $15.00 (see http://smallbusinessinstitute.org for more details). This new membership category is aimed at engaging our students with the SBI, particularly our students that are involved in completing SBI cases with real clients. In addition, in the coming months you will find new links on our website; resource pages providing practical information on starting a business, working in and with a small business, completing SBI cases, job search, and relevant articles to positively impact their future.

If you haven’t already, make plans to attend our 38th Annual Small Business Institute® Conference that will be held at the Tropicana Hotel in Las Vegas, Nevada Thursday, Feb. 13-Saturday, Feb. 15, 2014. This year’s conference will include Thursday morning educational workshops on the Project of the Year Competition and on Export Odyssey, a web-based program that can be used in your classes to get real businesses to successfully export, among others. Whereas attending some conferences for the first time can be daunting, SBI attendees are known for their welcoming spirit and are always willing to lend a hand to a colleague starting a new Project of the Year Competition at their college or university, starting a new class or research project, or considering submitting to the SBIJ or the Journal of Small Business Strategy (both journals are sponsored by the Small Business Institute® and the best papers presented at the conference are given early review). Please visit our website, http://smallbusinessinstitute.biz for more information or contact Bill McDowell, Program Chair, at mcdowellw@ecu.edu. And remember, bring a new colleague along!

As the journal field becomes more populated with outlets focused on the fields of innovation and entrepreneurship, we take pride in focusing on entrepreneurship particularly as it applies to small business and entrepreneurship education. Staying true to our mission to be the link between business, education, and the community, the SBIJ welcomes your submissions. In addition to focusing on high-quality empirical research, our journal is one of the few that publishes well-written teaching cases. We believe our applicability to the day-to-day jobs of most of our readership answers the call to be focused and responsive to our newest audience: the millennial generation. As always, we are open for suggestions to improve our journals and better meet the needs of our constituents. Please do not hesitate to contact one of the three co-editors, Mike Harris, Shanan Gibson, and Bill McDowell, if you have suggestions.

I wish you a productive fall and a wonderful upcoming holiday season.

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

Dear Colleagues,

Fall is in the air and along with the cooler temperatures and vibrant foliage comes this new volume of the Small Business Institute® Journal. For many small business scholars and practitioners right now represents the calm before the storm of the holiday season and we hope you have an opportunity to delve into this edition.

Reflecting the wide-ranging interests of the Small Business Institute® membership, this issue includes a variety of high quality articles that should appeal to our diverse and varied readership. We begin with an invited piece examining the importance of community engagement to universities and how student team consulting fits into this framework while simultaneously providing a strong experiential learning opportunity. Of importance to many practitioners, and consistent with the primacy of capital in the growth and prosperity of small business, the topic of funding sources plays a central role in this volume. First is crowdfunding, an emerging phenomenon that can result significant cash infusions for entrepreneurs. Next we provide a consideration of the efficacy of states offering tax credits for angel investors. Lastly, this volume concludes with an empirical piece on entrepreneurial exit and how the theory of planned behavior plays a role in decisions related to retirement.

Our thanks to all the authors and reviewers who have made this edition possible; it is a pleasure working with such a dedicated group of individuals. However, a journal’s success is predicated upon the constant inflow of strong manuscripts; please submit your small business research for consideration and tell your colleagues about us, too. The journal website contains details and submission instructions.

Shanan G. Gibson, William C. McDowell & Michael L. Harris
Editorial Team
### Editorial Review Board

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Student Focused Community Engagement:  
The SBI Program as a Bridge into the Community

Ron G. Cook  
Rider University

Diane K. Campbell  
Rider University

Amber Kopp  
Rider University

This paper discusses the importance of community engagement to universities. High level student-focused community engagement can be considered a type of service-learning, which is one method of experiential learning. It is believed that the student team consulting model is better structured and offers an improved learning experience for these activities than most service-learning projects. Research is examined from experiential learning and service-learning, and there is support for this argument. The paper concludes by discussing the Small Business Institute® model (SBI) of student team consulting and how the national Small Business Institute® Association can help schools and faculty use the SBI model to create more rewarding community engagement.

“During the last decade, community engagement has emerged as an important priority among many colleges and universities in the United States” (Weertz & Sandmann, 2010, p. 632). Community engagement (CE) is often characterized as universities employing a myriad of public service and outreach programs as a way to generate a more favorable opinion in the eyes of the local community and to enhance overall reputation, thereby increasing enrollments (Trowler & Trowler, 2010). However, this engagement has tended to be one-sided, as “most colleges and universities conceptualize engagement as focused on providing either (a) students with experiences in the community (i.e., internships, volunteer efforts) or (b) providing university expertise to the community” (Bruning, McGrew & Cooper, 2006, p. 126). Another issue raised in the literature is the amorphous nature of the term ‘engagement’ (Buys & Bursnall, 2007). Engagement has been described as any type of involvement with the outside world, ranging from community use of campus property to ongoing university-led studies of economic viability of an entire region.

COMMUNITY ENGAGEMENT

To better clarify this argument, engagement is defined as something more than sharing athletic fields or promoting the local community theater to students and staff. Engagement should be a deeper relationship among universities, students, and communities that benefits all stakeholders and requires a meaningful commitment from all parties participating. Here the word “universities” is used as shorthand for all higher educational entities, from community colleges to research universities. Further, the term “communities” is not defined solely by physical proximity to a campus. It can also be a larger region, a specific population such as Native Americans, or a larger organization. Therefore, this definition of engagement would then include a university that had an ongoing relationship with the Red Cross as well as one that worked with the local homeless shelter.

Community engagement is important because allows universities to develop their identity as more than a functional educational establishment and foster ties to the world beyond students, faculty and alumni. A more positive view of the university will not be limited to just that community, but will also enhance their overall image and standing. Today, with more questions being raised about the cost of higher education (CBSNews, 2011; Katsouleas, 2013), it is more vital than ever that a university be seen as being valuable to society at large.
Whereas in the past some universities have seen community engagement as a minor function of student volunteering, there is evidence that this perception is changing as more academic institutions are realizing the significance of finding common ground with their respective communities and the benefits that can result from embracing this partnership (Bruning, McGrew & Cooper, 2006). In this context, benefits can include, “improvement in the quality of teaching and learning and more rapid speed of ‘internalization’ of community engagement in an institution’s identity” (Buys & Bursnall, 2007, p. 74). In collaborating with different groups/organizations, both academics and students alike are being exposed to different perspectives and are given the opportunity to merge theory with practice in a real world setting. This not only adds value and context to information already held, it also increases the chances that the knowledge will be retained, incorporated and manifested as skills (Watson, 2007). The second benefit, internalization, addresses the need for universities to establish norms around community engagement such that these collaborations become habitual and thus a part of their overall mission. This lessens the criticism that these efforts are mere “public relations,” and demonstrates the commitment of the university to the wider world.

To demonstrate community engagement’s importance, the Carnegie Foundation for the Advancement of Teaching (CFAT) introduced a new classification for universities that engage in their community. Qualifications for this particular classification confirm that a university has institutionalized engagement with their community in three ways - identity, culture, and commitment. It is important to note that this classification is optional as it relies on voluntary participation by universities. Institutions awarded this classification must be able to document how they have incorporated CE in their identity through indicators of culture and commitment and how they define the scope of their CE (outreach programs, partnerships, etc.). Universities that meet this criteria experience benefits such as clarity of mission and full documentation of their work. In addition, having Carnegie’s official acknowledgment of their CE focus increases visibility and recognition (Driscoll, 2009). This is an excellent demonstration of the way that “University community partnerships can have a significant impact on raising the profile and status of the university” (Buys & Burnsall, 2007, p. 81).

Scholarly research in regards to the area of community engagement often focuses on processes, benefits, and roles as they relate to the main groups involved, namely academic institutions and their respective communities. Unfortunately, there is limited mention of arguably the most important constituency, the students, who play an integral part in the collaboration between universities and communities. Since the central mission of all academic institutions is to educate and engage students, it is essential that students are at the core of community engagement initiatives. Having a student focus at the center of CE programs not only makes sense, but it can also be a vital pedagogy in advancing the students’ academic development, and fostering a deeper sense of dedication to their community. Having students understand that their actions can have an impact on the world, as well as demonstrating the applicability of their education, increases the likelihood that knowledge will be retained and incorporated (Kickel, Griffiths, & Bacq, 2010). Therefore, it is proposed that student community engagement (SCE) be the primary focus of community engagement efforts.

**STUDENT COMMUNITY ENGAGEMENT AS EXPERIENTIAL LEARNING**

Experiential learning is a broad category that encompasses a range of learning activities from internships to consulting projects to student-run ventures. It is considered more holistic than classroom-only instruction and helps bridge the gap between what the students learn passively and the actual job expectations that students encounter when they enter the working world (Maskulka, Stout & Massad, 2011, p.4).
Experiential learning has been the source of a great deal of study in recent years, and previous research demonstrates its efficacy in increasing learning outcomes (Godfrey, Illes & Berry, 2005). The link between experiential learning and student community engagement can be manifested through one subset of experiential learning, service-learning. Although a number of definitions of service-learning (SL) can be found, a commonly accepted definition is as follows:

A course-based, credit-bearing, educational experience in which students participate in an organized service activity that meets identified community needs and reflects on the service activity in such a way as to gain further understanding of course content, a broader appreciation of the discipline, and an enhanced sense of civic responsibility (Bringle & Hatcher, 1995, p. 112).

Previous research has concentrated on the effectiveness of service-learning as a pedagogical method. This research has found that just like student community engagement, the environments where SL can occur have ranged from lower level club-based service projects to higher level, course-based activities (Holland, 1997). This contributes to our belief that an experiential learning approach that fits service-learning also fits student community engagement. More specifically, we focus on the higher level type of service-learning that uses a process-based approach that has students taking on “the role of professional consultants producing goods that will, in fact, be used” (Kenworthy-U’ren, 2000, p. 59). Higher level service-learning addresses complex problems in complex settings, requires students to practice critical thinking, and involves teamwork and community involvement (Eyler & Giles, 1999). This complex type of SL is appropriate to recommended for SCE as it includes a deep and substantial commitment to the learning process, and demonstrates the best kind of experiential learning.

As pedagogically sound as service-learning is, however, it can have its drawbacks. For example, in a study of service-learning preferences, almost two-thirds of community organization members were interested in transactional or one time projects with university partnership programs, typically because of resource constraints such as limited staff time (Kenworthy-U’ren, 2008). This means that the level of familiarity between parties that could emerge from much longer engagements does not naturally occur. Further, from the university’s perspective, some service-learning activities have had difficulty documenting the learning process as these SL projects often lack structure and clarity (Kenworthy-U’ren, 2000). These two concerns could also apply to student community engagement, and it would seem that they would need to be addressed to make higher level projects more effective for SCE.

Therefore, it is suggested that the student team consulting (STC) model be used as a framework for student community engagement, and it is believed that previous research into service-learning supports our recommendation. Student team consulting is an experiential learning model that has students operating as consultants with faculty oversight and a client whose needs are being addressed by the students. In the student community engagement process, that client would be a community organization. STC also focuses on problem-based learning in a cooperative (team) environment, and research into the best service-learning projects supports this type of pedagogy (Kenworthy-Uren, 2008). Both STC and the best of SL focus on building critical thinking skills and offer an inter-disciplinary approach to complex issues. Student team consulting and service-learning are also similar as both “seek to balance academic rigor with a practical relevance which furnishes students with a broader and, we argue, richer, educational experience” (Godfrey, Illes & Berry, 2005, p. 309). They both address one of the most salient criticisms of education today - the absence of realistic experience, applied learning, and grounded personal development (Godfrey, Illes & Berry, 2005). Given the shared characteristics of student team consulting and higher level service-learning, and parallels between service-learning and student community engagement, it is expected that student team consulting’s particular strengths would make it a great tool for an academic institution to successfully pursue SCE.
To address issues regarding community groups’ lack of staff resources that leads to a preference for transactional projects, STC can easily alleviate the fears that projects will overwhelm community organizations, thereby removing this barrier to the community engagement partnership. The STC model provides clear starting and stopping points designed around an academic calendar and requires the students, faculty and client to have an agreed upon understanding of the tasks the students are to accomplish. The student team consulting model can require a Letter of Engagement (LOE) that spells out the respective responsibilities of the parties and provides clarity to the project. Appendix A offers a detailed example of the LOE. The LOE is a negotiation that happens before the project starts, and allows the community organization to set the project’s parameters. Therefore, all parties receive assurance that their concerns are being met, and that the project will be beneficial for all stakeholders.

Since the LOE provides the clarity of the relationship between an organization and the student consulting team, this relationship can then be easily explained to other parties. It can become the cornerstone of any report to the university’s administration, and makes documentation much easier. Should the community and the university wish to lengthen the engagement into a long-term partnership, the student team consulting model can be extended into broader efforts. It is not uncommon for organizations to have iterative STC projects, and based on the projects’ recommendations, other areas of the university can also become engaged with the organization as well (Cook, Belliveau & Campbell, 2012). For example, a student team could make recommendations for changes in the outreach efforts of a literacy program, and those changes could be produced by a student team from the graphic arts department. Or the STC model could be used by education students as they work with an organization to assess their pedagogy. The student team consulting approach of analyzing the problem, exploring solutions, and making recommendations would remain the same. Hence, it is only necessary that the issue being addressed is a complex, real-world problem needing the kind of analysis that the students involved have the ability to complete. The keys to success in student community engagement are communication among all the stakeholders, and an agreement of the parameters of the project. Both are integral to the STC model.

Universities can also have reservations about SCE projects such as these, particularly in regard to assessment of learning and obtaining faculty buy-in. Because STC is a proven model, it can help faculty adapt to SCE, provide the project’s integration into an established course structure, and allow the faculty member to concentrate on enhancing the student’s learning experience rather than on course design/modification to make it “fit” into SCE. Further, by adding a reflection piece to STC, the model can also create documents for assessment of learning for the university’s use in meeting accreditation criteria. All of the documentation that is built into the STC model allows the university to understand, track, and assess each project.

Therefore, the student team consulting model can create value for all stakeholders, is grounded in real world projects, and will greatly enhance the students' cognitive abilities and learning process. The STC model can facilitate effective learning-based connections between student experience, course content, and community (Cook, Belliveau & Campbell, 2012). All of these factors make student team consulting ideal as a methodology for student community engagement.

**SMALL BUSINESS INSTITUTE® MODEL OF STUDENT TEAM CONSULTING**

Fortunately, there exists an organization dedicated to the STC model which can help universities conduct student community engagement using student team consulting. This organization is the Small Business Institute® (SBI), and its SBI program is a flagship model for STC. The SBI program is the oldest and most successful example of student team consulting in the country, as it began in 1972, and at its peak encompassed over 400 colleges and universities (www.smallbusinessinstitute.biz, n.d.). Like all STCs, the SBI program involves the students and the community, is characterized by a deep commitment by the faculty and students towards the client, and results in an invaluable learning experience for students.
However, what makes an SBI program attractive is the rigorous structure of the projects, which are done under faculty guidance and for academic credit. The SBI program has the student teams operating as outside consultants and requiring them to assess a client’s needs, develop a contract with their client, and then execute that contract over the course of a semester. In summary, the process:

...offers students an opportunity to integrate their academic and work experiences in the creation of a consulting solution for a client’s real world problem. The consulting process provides students with experiential learning in small group dynamics, problem definition, research methodology and application, project management, and in making presentations (Cook, Belliveau & Campbell, 2012, p. 9).

Given that the student team consulting model provides the basic framework needed for student community engagement, the SBI program takes that framework and provides more structure and rigor to provide the best possible outcome for the client which, in almost all cases, is in the local community. Thus, student community engagement is assured. Further, the level of involvement that an SBI client organization has with the student team is deep and ongoing, and as a result, the organization builds a relationship with the faculty instructor and the university. We characterize these relationships as win-win-win-win. The organization gets a consulting report that involves literally hundreds of hours of effort, the students are engaged in experiential learning in the community during the creation of this report, and the university gains goodwill by helping the community as it strengthens these organizations.

To assist universities with starting with an SBI program, you can turn to the national SBI Association. The Association provides assistance to faculty in three broad areas, including knowledge development, conference activities, and recognition programs. For the purpose of helping a university start an SBI program, we will focus on the knowledge development area.

Knowledge development includes activities relating to the SBI national conference sessions, and a one-on-one mentoring program to help start an SBI. The Association also runs an annual student consulting competition that recognizes the best student consulting projects. The projects that win this annual competition can provide excellent examples of quality student community engagement.

The national conference offers professional developmental sessions on creating and operating a successful SBI program. These hands-on workshops offer the opportunity for new SBI programs to learn how to recruit clients from the community, match them up with students, and gain the support of their institutions. Established SBI programs can learn new methods and tips to keep their programs current and relevant. Most importantly, the conference brings together numerous faculty members who have devoted much of their careers to promoting SCE through their SBI programs. This wealth of knowledge is a resource to anyone who wishes to utilize the SBI model for student community engagement and enhance both their students and their professional lives.

Further, the Association provides a mentoring program to help new SBI programs. New SBI directors are paired up with experienced directors for one-on-one coaching and advice. This mentoring will occur for as long as it is needed and institutions will be matched up with each other by size and type, if possible. Although there is a much longer list of benefits that can be gained from being involved with the Association, these two examples are provided as a sample of the available support for an individual SBI program.

Student team consulting, and specifically the SBI program model, is an excellent vehicle for universities to pursue student community engagement. To learn more about creating an SBI program at your university, visit the national website at www.smallbusinessinstitute.biz.
REFERENCES


APPENDIX

Sample Letter of Engagement (LOE)

KJP Consulting
SBI Consulting Team
Rider University

Mr. Daniel Josephs, I.C.E.
Spruce Industries, Inc.
759 E. Lincoln Avenue
Rahway, NJ 07065

Subject: Letter of Engagement between Spruce Industries, Inc and KJP Consulting

We are delighted to have the opportunity to work with Spruce Industries, Inc. (“you” or “Client”). This letter of engagement describes the services to be performed and the relevant terms and conditions governing our relationship.

I. Background

Hank Josephs purchased Spruce Industries, Inc. over 20 years ago. Hank’s son Dan Josephs joined the business approximately five years ago to assist with the day to day operations of the business. Spruce Industries is a producer and distributor of sanitary cleaners, chemicals, and equipment offering complete sanitary solutions.

A few years ago Hank and Dan recognized an early trend in the marketplace. They realized that more people wanted cleaning solutions that were green. “Green” in the sanitary industry means chemicals that are non-toxic and/or products that have minimum impact on the environment. In the past, green cleaning products were not in as much demand because they often did not clean as well as traditional cleaning products and cost more. However, with developments in green cleaning chemistry, green products now clean equally well at the same price. Spruce’s customer base consists of schools (45%), healthcare (10%–15%), housing authorities (10%–15%), with the balance consisting of different kinds of accounts such as airport terminals.

Spruce Industries is seeking the services of KJP Consulting to provide marketing recommendations to tap into the same consumer market. In connection with this engagement, KJP Consulting has referred to and relied upon information provided by Spruce Industries.

II. Project Objectives

Spruce currently sells and distributes cleaning products to businesses or organizations that use the products purchased for industrial purposes. With intense competition in this market, including product price cutting due to the recession, it is becoming increasingly difficult for Spruce to discover new business opportunities. Spruce would like KJP Consulting to make strategic business recommendations to effectively tap into the consumer market, specifically for their in-house (private label) and eco-friendly cleaning supplies.

To accomplish that objective, Spruce is looking to expand the consumer market through retail outlets. While this has never been attempted by Spruce, KJP Consulting will research if there is a significant
opportunity to grow the revenue of the firm by obtaining shelf-space in retail outlets is feasible. In addition, Spruce would also like for KJP Consulting to provide insightful ways to use the just-developed consumer website to meet his goal.

In order to develop a plan that will reach this market, the Student Consulting Team will conduct research with consumers and retailers to create a marketable brand of eco-friendly cleaning products that will appeal to the consumer market. This will entail creating a new brand name, and designing new packaging.

III. Approach

In order to meet the objectives of this project, KJP will conduct primary research that looks at retailers of eco-friendly products and how the products they carry are marketed and priced. The consulting team will evaluate the strengths and weaknesses of competitors to help determine what, if any, possible openings or competitive advantages are in the existing market. Part of this analysis will focus on process and its potential to create an advantage. For example, one competitive advantage that Spruce’s private label eco-friendly brand products could have over some other consumer-based products is the necessary “green” certifications. Once this research is completed, a brand needs to be created that is appealing to the consumer in terms of product use, brand name, and packaging. Misco Product Corporation will be the source that provides valuable information on private label branding and packaging to KJP Consulting. Five possible brand names that the consulting team has created will be surveyed in the consumer market using the services of Survey Monkey to get a sample size of approximately 100 consumers. Based on the popularity of the brand names, they will be narrowed down and then the consulting team will make the final decision on which name to utilize.

While Spruce’s eco-friendly consumer brand is being developed, primary research will be performed concurrently to determine the processes involved and feasibility in obtaining shelf space at various regional and/or local retailers. This primary research will consist of directly contacting two big box retailers (Target and Wal-Mart), two supermarkets (Wegman’s and Whole Foods) and two environmentally conscious retail stores (located in New Hope, Pennsylvania area) through phone, email and onsite visits to obtain as much information as possible concerning the feasibility of obtaining shelf-space at these locations. Using this information, a plan will then be put together for Spruce’s sales representatives to help them obtain accounts in the retail market.

Ultimately, KJP Consulting will make a recommendation as to whether or not it is feasible to enter the consumer market through this channel. Consistent with this recommendation we will also provide ideas towards the most effective use of the existing consumer website.

IV. Client Deliverables

1. KJP Consulting will submit and formally present the project data to Spruce Industries on or before April 10, 2011 (or a mutually acceptable date) at Rider University.
2. At the time of the presentation, Spruce Industries will receive a bound copy of the project containing the primary data, the secondary data, and the final recommendations.
3. Spruce Industries will have a new eco-friendly brand for household cleaning products regardless if the final decision is to recommend that Spruce pursue the consumer market.
4. Spruce Industries will be provided with a list of feasible retailers to target based on the primary research conducted by KJP Consulting, as well as a brochure that clearly defines the brand, brand slogan, and brand image to be utilized by Spruce’s sales force.
V. Scope of Consulting Project/Responsibilities

General Guidelines
- Objectives and assumptions contained in the project proposal are based on information provided by Mr. Dan Josephs of Spruce Industries to the Student Consulting Team. Other assumptions may be made based upon the information that we receive during the site visit of Misco Products Corporation.
- This letter of Engagement will define the scope of the consulting project.
- Any modifications to project requirements must be agreed to by Mr. Joseph’s, the KJP Consulting, and the professor. These modifications must be documented via e-mail or written agreement.

Spruce Industries Responsibilities
- Communicate project requirements openly and precisely. Dan Josephs will be the primary firm contact, and will actively engage in product design and implementation.
- Commit the time and resources necessary to provide all requested information, feedback, and guidance on a timely basis.
- Be available to KJP Consulting at mutually agreeable times and locations, either via telephone or in person.
- Provide any resources and/or budget as agreed upon by this Letter of Engagement and in subsequent written authorization.

KJP Consulting Responsibilities
- Actively participate in all meetings to understand Spruce’s requirements and deliverables.
- Remain in regular contact with Mr. Dan Josephs throughout the project. For simplicity, the majority of communication will take place through Kevin Lawton who represents KJP Consulting as a primary point of contact for Spruce Industries.
- Communicate project requirements openly and precisely.
- Manage project deliverables and timelines.
- Conduct all meetings and exchanges in a professional and courteous manner.
- Maintain the confidentiality of project information.
- Identify a single primary point of contact and supply additional contact information of all team members.

VI. Project Budget

At this stage in the process, no expenses are expected. Should expenses arise during the course of this project, they will require prior authorization by Mr. Dan Josephs. Authorization may be in the form of e-mail.

VII. Project Schedule

- Initial meeting will be held with Mr. Dan Josephs at Spruce Industries’ Rahway NJ office to obtain information about the organization and its needs. This initial meeting was held on Monday, January 10, 2011.
- The second in-person meeting took place on February 15, 2011 at Misco Products Corporation in Reading, PA with Mr. Daniel Josephs. The purpose of this meeting was to better understand the different possibilities for redesigning the green private label product line for Spruce. During this meeting the Student Consulting Team examined possible products, ideas of making these products more eco-friendly and appearance of physical product through its packaging.
• Letter of Engagement will be completed by Thursday, March 3, 2011 and sent to Mr. Dan Josephs for his signature.
• Brainstorming will be done for finalized product line which will be done in collaboration with Mr. Dan Josephs, and will be done by the end of March.
• Research will be done in order to determine where Spruce may have a potential consumer market in the local area. This research will lead to the feasibility aspect of the plan and allow for a further understanding of which retail locations are best suited for the new product line. The research portion of this section will be completed by March 27, 2011.

Certain steps outlined above will be done concurrently. Project milestones will be marked with interim updates to Mr. Dan Josephs of Spruce Industries.

VIII. Agreement

The analysis, recommendations, and final report that will be provided should not be interpreted as the official position of Rider University or its staff. Rather, it will contain the views and opinions of KJP Consulting based on discussions, observations, investigations, and analysis of Spruce Industries operations and its business environment.

If circumstances arise that are beyond the control of KJP Consulting or Spruce Industries, and the completion of this project cannot be achieved, KJP Consulting and Spruce Industries shall jointly take a course of action that is mutually agreeable.

IX. Approval Signatures
(signatures on the copy that went to the client)
What is Crowdfunding? Bringing the Power of Kickstarter to Your Entrepreneurship Research and Teaching Activities

Troy A. Voelker
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Crowdfunding has emerged as a unique method for small and nascent businesses to avoid some of the pitfalls associated with capital acquisition. Kickstarter has emerged as a leading platform of crowdfunding, providing over $688 million in capital for nearly 50,000 projects. This paper explores the crowdfunding phenomenon using Kickstarter as a foundation. We identify the promise of Kickstarter for prospective entrepreneurs, small business owners, researchers, and educators. We also suggest an approach for integrating Kickstarter into Entrepreneurship courses.

Researchers interested in entrepreneurship and small business management have long studied the capital acquisition efforts of nascent and small businesses. This focus is well justified given the difficulties small businesses typically face obtaining necessary capital (Carter & Rosa, 1998). Indeed, capital-related issues rank among the most common reasons for small business failure (Yallapragada & Bhuiyan, 2011), a story even more common when examining minority owned small businesses (Robb, 2002).

Entrepreneurship programs within business schools represent a widely established vehicle for educating an entrepreneurial population. An entrepreneurial education is a prominent and common element of most AACSB programs, although there are questions about the utility of an entrepreneurial education as a facilitator of business-startups (Honig, 2004). O’Conner and Greene (2012) defend entrepreneurship education, noting a high correlation between business-educated entrepreneurs and start-up ventures, “if only because such support raises their awareness of the entrepreneurial option” (pg. 11). Elmuti, Khoury and Omran (2012) concur, adding that a formal education in entrepreneurship increases both the confidence and skills necessary for entrepreneurship, although they caution that such programs need to include reflective educational processes.

The purpose of this paper is to examine Kickstarter, one of the more popular and emergent crowdfunding platforms. We offer an overview of Kickstarter’s, history, features, and the performance of venture funding through this channel. Then, we discuss the value of Kickstarter, and, by extension, crowdfunding, for educators, small business, and entrepreneurship. It is our belief that the integration of Kickstarter into the traditional entrepreneurship class would be beneficial. Kickstarter offers an opportunity for students to examine a variety of start-up and existing businesses as they pursue funding. This access offers both the ability to critically examine funding efforts while also challenging the students to think outside conventional paths in their own business plans. We conclude with an example of the application of Kickstarter promotion into the typical entrepreneurship course preparation.

ON SMALL AND STARTUP BUSINESS FUNDING

As this paper is primarily focused on Kickstarter and its values in the entrepreneurship classroom, an extensive review of business funding mechanisms is outside the scope of this current effort. However, a review of the field helps demonstrate the need for, and importance of, Kickstarter and other crowdfunding platforms. We contend that the limits to the availability and suitability of traditional funding processes generate difficulties in finding adequate sources of capital. Lacking adequate sourcing
options, small and startup businesses often turn to the savings of the entrepreneur and his/her friends and families. This, in turn, leaves many of these businesses undercapitalized, ultimately contributing to the high mortality rate of small businesses.

Lussier and Halabi provide a more extensive review on small business failure and its underlying causes (Lussier & Halabi, 2010). Of the thirteen predictors, adequate capital and financial controls rate highly. Among the other sources of failure, businesses without professional advisors, self-operated businesses without a partnership, and minority owned businesses are each more likely to fail. This, in turn, links up to the findings of Robb (2002) who notes that for minority owned businesses, the lack of access to capital and expertise drives the overwhelming failure rates of minority owned businesses.

While expertise and planning are certainly crucial elements of startup success, the importance of adequate capitalization cannot be understated. Here we are primarily focused on the financing problem, and specifically the lack of financing alternatives for startups and small businesses. In part, the problem lies in lack of adequate sources of capital for small business and business startups. While larger, established businesses typically have numerous options for both debt and equity financing, small and startup businesses generally find themselves blocked from these same channels. Simply stated, credit channels favor older, established firms and equity channels evidence preferences for a narrow range of business startups. Whether due to their size, lack of business history, or structural obstruction, small business and startups simply lack the financing options available to larger firms. Therefore, many small and startup firms find their initial, and ongoing, financing, arises from the personal savings of the owners as well as their friends and families (Willoughby, 2008).

Equity funding through venture capital is a favored method of obtaining financing and expertise for startup firms. However, there are several issues associated with venture capital which limits its application. Venture capital typically seeks startups with provable and protectable intellectual property (Akin, 2011), or startups with large potential for growth. Further, venture capital itself is influenced by economic conditions, given that periods of economic downturn deplete the availability of capital (Lindgaard Christensen, 2011). The sensitivity of venture capital in an economic downturn is not surprising; investment in this area – particularly in early seed stages – has a high failure rate. With as many as half of all investments producing zero to negative returns (Degennaro, 2010), venture capital understandably shrinks when the economy as a whole becomes more at-risk. Thus, while venture capital is a useful, and often desirable, method of financing its limits in availability preclude its utility for some firms while its lack of suitability precludes still other viable firms.

An additional problem with capital acquisition appears to be unawareness of funding opportunities. Research on start-ups suggests that entrepreneurs with limited knowledge of funding systems routinely pursue less beneficial funding opportunities than do those with increased financial awareness (Seghers, Manigart, & Vanacker, 2012). In addition to embeddedness in social networks, evidence from Seghers and colleagues suggest that an entrepreneurship business education increases awareness of financing opportunities leading to utilization of more efficacious funding options.

In the United States, there exists a number of government programs designed to address these financing woes. The Small Business Administration, for example, provides guidelines and assistance in the administration of SBA lending. Additionally, many small firms find opportunities through government programs like the Small Business Innovation Research (SBIR) and related programs (Audretsch, 2003). Further, the government also contributes to the success of small business through direct mandates for contract awards to small businesses (Voelker & McDowell, 2011) including minority-owned small businesses (Abramowicz & Sparks, 2007; Gibson, McDowell, Harris, & Voelker, 2012; Reardon, Nicosia, & Moore, 2007).
Despite the successes of these programs, many viable small and startup businesses nonetheless remain capital constrained. In short, traditional capital channels often lead to potential funders failing to find viable seekers, as well as seekers of funds failing to find suitable funders. A more visible, and transparent, funding platform might remove these information asymmetries. In our investigation of Google search traffic we find compelling evidence of the popularity of Kickstarter and in our examination of Kickstarter, we document intriguing transparency. Having access to such a popular, and transparent, platform provides intriguing opportunities for entrepreneurs, researchers, and educators.

WHAT IS KICKSTARTER?

Ordanini, Miceli, Pizzetti and Parasuraman (2011) refer to crowdfunding as “a collective effort by consumers who network and pool their money together, usually via the internet, in order to invest in and support efforts initiated by other people or organizations” (pg. 443). Kickstarter launched in April, 2009 as a web-based crowdfunding mechanism supporting the creative arts. Today, the nearly 70-person organization provides a funding mechanism for a much broader array of project. The project categories Kickstarter lists include:

- Art
- Comics
- Dance
- Design
- Fashion
- Film and Video
- Food
- Games
- Music
- Photography
- Publishing
- Technology
- Theater

Public interest in Kickstarter has increased dramatically since its 2009 introduction. Figure 1 documents a Google Trends analysis of Kickstarter along with several search terms typically associated with entrepreneurial and small business financing. We began our Google Trend analysis focusing on searches using the terms entrepreneur, small business loan, loan for business, venture capital, and Kickstarter. Google Trends tracks the search volume for the terms entered and then indexes the volume to the peak of the highest search term. In each case, we used the related searches option to identify the peak search term related to the concept and then iterated our analysis using that term. Ultimately, small business loan and venture capital were chosen as two search terms associated with capital sourcing. Entrepreneur was selected as a basic term affiliated with, but not constrained by, the search for funding.

Entrepreneur maintains roughly a constant volume of Google searches over time. In the aftermath of the 2008 recession, the search interest in the term entrepreneur spikes. However, once that spike is absorbed, search patterns stabilize around its new interest level. By comparison, venture capital search has decreased by a factor of five from 2004 to 2012. Kickstarter, by comparison, is certainly the hot story. Google searches for the term Kickstarter begin to ramp-up in 2010. Kickstarter surpassed small business loan searches in 2010, venture capital searches in 2011, and entrepreneur searches in 2012. Prior to the end of 2012, Kickstarter searches were more common than venture capital searches were in 2004!
To date, Kickstarter boasts in excess of $688 million in successful funding of almost 50,000 creative projects (Kickstarter, 2013). In 2011, it was estimated that Kickstarter provided the equivalent of 10% of all angel funding for that year (Greenwald, 2012). This is not to suggest that Kickstarter will replace venture capital, far from it. Rather, crowd funding supplements the role of venture capital and most likely also provides a funding alternative for a different type of business. Adding Kickstarter, or other crowdfunding sources, to the capitalization mix likely increases the efficiency of capital search efforts. A number of projects not suitable for venture capital can fund off of Kickstarter. Additionally, potential venture capital projects can use a successful Kickstarter promotion as a proof of concept for their business plan when approaching venture capital.

Figure 1: Google Searches for Entrepreneur-Related Terms

Kickstarter works off a fundable project model. Would-be project managers list their project, its details, and its funding aspiration. The funding goal establishes a base target for the project and a deadline (generally 30-days) to achieve the funding. A typical Kickstarter project displays a video from the prospective entrepreneur outlining the project, its intended benefits, and its funding needs. Additionally, the right side of the webpage lists the number of backers, the total amount of money currently pledged (and goal), and the time remaining in the Kickstarter promotion. The lower areas of the webpage detail the desired pledge levels, any exclusivity to the pledges (some have first availability options), updates on the project, and stretch goals for projects that have exceeded their initial funding targets.

The pledge levels detail the pledge dollar amount solicited, the number of spots available (if exclusive), and the number of backers who have contributed this amount. For example, one Wi-Fi brewery temperature project used an “early bird special” to stimulate pledge interest. They allowed the first ten backers at the $125 pledge level to receive the retail product. This resulted in a deep discount from the anticipated retail price of the product, providing a motivation to quickly sponsor the project. All ten early bird options sold out quickly and the project team added a higher level (and still exclusive) 100 slots at $150, which also filled. Kickstarter thus enables both capital search and marketing promotion activities.
Each Kickstarter project lists a wealth of information about the project and Kickstarter provides an abundance of statistics on funded, and unfunded, projects. Kickstarter projects generally provide above-goal targets, including additional aspirations should the funding exceed its targeted goal. Further, the Kickstarter submission typically includes a list of rewards based on the level of funding. Awards range from copies of the product, visits and tours of facilities, creative mementos, inclusions of thanks as backers, and similar recognition. Currently, all funding through Kickstarter must come in as a donation or a pre-purchase of a product/service. No equity or credit relationship is established in a Kickstarter promotion.

An example of a Kickstarter promotion is GoldieBlox (Sterling, 2012). Debbie Sterling holds a product design engineering degree from Stanford and has an innovative product to develop spatial awareness skills in young girls. Debbie has engaged in extensive product development research and product feasibility studies with researchers at Cornell. Her production sourcing efforts led her to a Chinese manufacturer capable of producing the first order, but requiring a minimum 5,000 lot purchase. As is often the case with prospective entrepreneurs, she had already sunk her life savings into the project and lacked the funds to bring the final product to market. Given her background, there is a chance she could have found angel funding for the product, but that would require sacrificing a substantial equity position. Instead, Debbie used Kickstarter, seeking the $150,000 needed to get her first production run covered.

Debbie’s Kickstarter promotion exceeded her funding goal within five-days, ultimately concluding with over 3,200 backers. While many of these backers only contributed $30 to “pre-buy” the product, a number of contributors donated as much as $5,000 simply to show support for her business and its goals. Her successful Kickstarter resulted in the product listing on Amazon.com, providing a powerful distribution channel for her initial product. With her first production run covered and over half of the initial 5,000 units pre-sold, Debbie is free to use the additional funds to develop the second and third product in her GoldieBlox line. She has successfully funded her product launch, developed brand awareness and funded future product development efforts without incurring a dollar of debt or dilution of equity.

Kickstarter uses an all or nothing funding model. Pledged funds are not collected until the end of the funding period (established in the goal-setting statement). Should a project fail to meet its initial targeted goal, no financial transactions occur. However, if a project exceeds its target goals, the organizer receives all funding, including contributions in excess of its goal. In another example, on 16-Sep, 2012, the established video game developer Obsidian Entertainment posted a Kickstarter funding request. In their posting, they sought $1.1 million to fund the creation of the video game Project Eternity (Entertainment, 2012). The project achieved 90% of its funding goal within 24 hours and was fully funded within the first week. Over the remainder of its 30-day solicitation period, Obsidian Entertainment added a number of “stretch goals,” incorporating additional project development efforts should further (and higher) funding levels be met. The project ultimately received nearly $4 million in funding from 73,986 backers.

Kickstarter provides a funding mechanism for both new and existing ventures, but it also provides market feasibility for future venture capital efforts. As an example, Samantha Meis leveraged her successful $9,000 funding for MistoBox into a future $75,000 funding from Mark Cuban on the television show, Shark Tank (Arizona, 2013). Returning to the GoldieBlox example, Debbie may eventually choose to pursue venture capital to grow her brand presence. Should she do so, the success of this Kickstarter funding provides a testament to the feasibility of her product and brand. It is not inconceivable that venture capital will eventually expect to see a successful Kickstarter campaign as a prerequisite to investment.
PROJECT FUNDING INFORMATION

Kickstarter provides a great deal of transparency in both project information and aggregated funding details. It maintains a project stats page that is updated daily (Kickstarter, 2013). Through September 2013 Kickstarter maintained roughly a 44% successful funding rate with $688 million in funded projects. As depicted in Figure 2, the vast majority of funded projects raise less than $10,000. However, a noticeable number of projects raise in excess of $20,000 with a number of recent projects funding in excess of $1,000,000.

Figure 2: Kickstarter, Successful Fundings

Kickstarter also remains true to its origins, with the majority of projects coming from creative arts. Film, Video, and Music have the most successfully funded projects while Dance, Theater, and Music are the categories most likely to be funded. However, an increasing number of technology projects are finding their funding opportunities through this channel.

Figure 3 - Kickstarter, Projects Funded by Category

A number of video game projects have successfully raised between $100,000 and $1,000,000 with twenty-five titles bringing in over $1,000,000. Similarly, 163 technology projects have received six-digit funding with nine receiving in excess of $1,000,000. While funding’s in excess of $100,000 remain rare, and $1 million funding’s remain even rarer, the ability to raise substantial capital exists and appears to be growing as awareness in Kickstarter increases.

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At this point, Kickstarter only funds project concepts. While it will fund start-up ventures, the funding package must be configured as a project and the funding request along with benefits must be articulated as a feasible project. Further, there are no stipulations for investment via Kickstarter. Donors may pre-purchase the project or receive donation perks, but they cannot receive a financial return on their investment. However, due to the success and popularity of Kickstarter as well as equity funding options available for small business via the Jumpstart Our Business Startups (JOBS) Act (Castelluccio, 2012; Gobble, 2012), it is expected that equity crowdfunding will emerge in the near future (Waheb & Mack, 2013). Whether it reaches the levels of funding and popularity that this generation of crowdfunding enjoys remains to be seen.

While the lack of true investment sourcing is a limitation in the current Kickstarter platform, the ability to raise funds without committing to debt or equity financing may be advantageous for some firms. For a start-up with a proven business model or a small firm extending a product line offering, Kickstarter provides a way to promote the product, generate pre-sales, and potentially develop distribution channels without diluting the owners’ equity or incurring debt.

However, for some firms, the pursuit of capital is also a pursuit of partnership. Experienced investors in startups are often able to provide invaluable advice and mentorship to prospective entrepreneurs. While it appears that some venture capital already searches Kickstarter for opportunities, it seems unlikely that a Kickstarter promotion will lead to solicitation for future investment. In other cases, the nature of the funding may not neatly package into a project. In such cases, Kickstarter is quite limited. In these situations, organizations like Fundable (Fundable, 2012), Fundageek (Fundageek, 2012), Pushfunder (Pushfunder, 2012), or Rock the Post (Post, 2012) may be better options.

**IMPLICATIONS FOR EDUCATORS**

Colleges and Schools of Business frequently provide an education in entrepreneurship (Honig, 2004). These programs typically blend the abstract learning associated with the traditional lecture and textbook model with a more experiential model requiring student reflection and experimentation (Pfeifer & Borozan, 2011). Kolb and Kolb (2005) note that experiential learning places an emphasis on “the process of creating knowledge,” (pg. 194). They also describe the experiential learning process as a “spiral where the learner touches all the bases – experiencing, reflecting, thinking and acting” (pg. 194).

Within entrepreneurship classrooms, experiential learning projects range from field study, interviews with entrepreneurs, and the creation of a formal business plan (Mustar, 2009). Inclusion of these elements alongside traditional text and lecture models are argued to improve hands-on knowledge and help the budding entrepreneur proceed towards an eventual real start-up opportunity (Kozlinska, 2011). Elia, Margherita, Secundo and Moustaghfir (2011) observe that experiential learning improves the entrepreneur’s critical thinking skills related to opportunity identification and venture design.

We believe that Kickstarter offers an array of experiential learning opportunities for entrepreneurship students. In all likelihood, the most common experiential element in entrepreneurship programs is the development of the formal business plan. Honig (2004) suggests that most AACSB schools emphasize business plan creation and encourage competition in national business plan competitions. Honig criticizes this process, observing that the ritual of the plan may be more seductive than the utility of the plan. Extending his critique to our own experiences with the plans submitted by our students, it certainly seems that some of the viable businesses our students ideate are ill-suited to traditional funding channels. To that end, realigning the business plan process to include options outside of conventional capital acquisition sources certainly has potential. Kickstarter may provide a more efficacious environment for distilling experiential learning in entrepreneurship students.
The traditional Entrepreneurship course generally involves the creation of a business plan and formal venture capital presentation. This involves the creative process of generating an idea for a venture, the analytic process of evaluating the potential of the venture, and the descriptive process of presenting the pertinent information about the venture. While the business plan is an invaluable part of the Entrepreneurship course, it is reasonable to conclude that many of the projects submitted by students are not candidates for venture capital investment.

Of course, a number of these student presentations are simply not viable ventures. In these cases, the process of the Entrepreneurship course is academic, preparing the student for a hopeful future presentation. However, a number of these student projects are viable business ventures, but still remain unsuitable for venture capital. Either the scope of the project is too small, or the potential returns too low to attract formal VC backing. Yet these projects could lead to viable firms if a different source of capital were available.

Kickstarter offers a strong possibility for these types of businesses. Contributors to a Kickstarter project are only interested in the project itself and, possibly, the rewards offered by the business venture. Additionally, a successful Kickstarter presentation can generate early sales and even distribution opportunities for the project team. Ultimately, a successful Kickstarter promotion can be leveraged as proof of concept and market feasibility in subsequent capital search efforts.

It is for these reasons that we argue that a Kickstarter (or similar crowdfunding) plan be integrated into the business plan element of the Entrepreneurship course. Additionally, Kickstarter can be a useful tool facilitating the creative and analytic elements of the Entrepreneurship course. As shown in Figure 4, we suggest a three step integration of Kickstarter into an Entrepreneurship course preparation.

Figure 4: A Three-Stage Model for Kickstarter Integration

**STAGE 1: FACILITATING THE BRAINSTORMING PROCESS**

Elia and colleagues (2011) call for use of experiential processes to facilitate creative idea generation while O’Conner and Greene (2012) observe the importance of developing awareness of the entrepreneurship option. Kickstarter offers an opportunity to assist students in the idea generation and recognition process. Students should be introduced to Kickstarter in one of the initial meetings of the Entrepreneurship course. The instructor should review its history, its interface, and the statistics of funding for Kickstarter. From here, the students should be tasked with exploring Kickstarter for projects currently seeking funding. The first element of the Kickstarter integration involves the student identifying and then presenting a Kickstarter project they find interesting.
Students should then present their findings to the class in one of the initial class meetings. The presentation should cover the product, promotion, funding sought, and the current status of the funding search. This should lead to a relatively diverse number of presentations, helping stimulate the creative processes typically needed in the early parts of an Entrepreneurship course.

STAGE 2: ENGAGING THE ANALYTIC PROCESS

Pfeifer and Borozan (2009) call for increased reflective observation while Honig (2004) argues for increased awareness of contingency opportunities. Once again, access to past and present Kickstarter projects affords the entrepreneurial student an abundance of projects to analyze and compare. Students should be tasked to evaluate a pair (or multiple pairs) of Kickstarter projects, one failed and one successful. The projects should be from the same category and of a similar size. Students should engage in a compare and contrast analysis of the two plans. What were the strengths and weaknesses of each plan? What activities in the project and its promotion differ between the successful and failed plans? Based on their comparison, what emerges as a set of best practices and activities to avoid?

Students should present these findings to their classmates. Additionally, the instructor should guide the students in a meta discussion of the failed and successful plans. The class should then be able to identify common best (and worst) practices as well as one-off elements that may have been contextual to single plans. Kickstarter’s own data provides some indication of what students will likely find. Kickstarter advises care in creating awards, care in selecting realistic dollar funding (as well as the ability to document the need for and benefit of the funding level), and awareness of the need to actively promote the project funding. Instructors of Entrepreneurship and Small Business Management courses should readily find parallels between this and best practices in preparation of successful capital searches. Kickstarter, in this sense, becomes a living model, providing visible demonstration of the elements we are already teaching.

STAGE 3: INTEGRATION INTO THE BUSINESS PLAN

It is our recommendation that a Kickstarter (or other crowdfunding) pitch be integrated into the traditional business plan. Students should develop and present their Kickstarter promotion, either to the class or as a written element of their final business plan. This submission should include all elements needed in launching a Kickstarter funding search. Students should generate the funding goal and timeline. They should clearly identify the rewards offered as well as their targeted goals if their funding exceeds its targeted amounts. They should provide a clear plan for promoting their Kickstarter project. Finally, they should demonstrate how the Kickstarter plan ties back in to their business plan itself. If the purpose of the Kickstarter plan involves developing distribution channels, that should be discussed in their submission.

Creating a successful Kickstarter promotion depends, ultimately, on having a viable business model as well as the planning for and implementation of a successful messaging campaign regarding the venture’s needs and benefits. These are already elements of a superior business plan. Kickstarter provides an alternative medium for the accumulation of capital. Given that a successful Kickstarter funding generates a capital infusion without diluting equity or accumulating debt, Kickstarter may even be a superior funding opportunity for some business plans.

DISCUSSION

Ultimately, the crowdfunding movement adds a new element to the typical capital search. In the current medium, this entails the pre-selling of products and benefits, but once the JOBS Act is fully implemented, crowdfunding may also open the door for more traditional capital sourcing. For instructors, students and researchers of small business and entrepreneurship, the crowd sourcing movement is an unprecedented boon.
An array of opportunities manifests themselves for researchers and educators, both with Kickstarter and the crowdfunding movement. Small business researchers and educators suffer from a dearth of data, something largely overturned by the transparency of Kickstarter. A simple perusal of the projects, both current and past, evidences the hopes and dreams of thousands of small businesses. Some of these are existing ventures expanding their business lines, others are hopeful startups. The detail of the projects and organizations, along with the success and failure of the project fundings provides a wealth of information and access to small businesses. While there are a number of research directions available, two seem more obvious and urgent.

The first research question addresses a question of interest both to Kickstarter and to the various organizations posting projects; what really works? Just in the brief perusal of data depicted earlier in this paper, some project categories are more likely to succeed than others. Additionally, certainly smaller fundings seem more likely to make than larger fundings. However, within each category of projects and within each funding bracket, there are likely clear distinctions between the projects that fund and those that do not.

A cottage industry is already springing up offering advice on how to achieve better success with your Kickstarter promotions (Curtis, 2012). Kickstarter itself engages in regular data mining and provides a set of best practices. The emerging consultant industry is largely based on anecdotal evidence; promoting the hope that what worked once will work again. Kickstarter has a more data driven best practice model, but its advice tends to be fairly broad.

Researchers should tackle the question of what works. Examination of projects, the promotion of the projects, the packaging of rewards, and the experience of the company and its founders are likely to provide insights into the optimal Kickstarter promotion.

We know, for instance, that certain businesses are less prone to failure than others. We know that inadequate funding plagues small business and leads to failure. Does Kickstarter provide a preferable alternative to traditional funding, is it simply an alternative funding model, or are there hidden weaknesses in the Kickstarter funding model? Currently, the large number of projects submitted for funding speaks to the demand for capital and the reachability of Kickstarter. Are the projects being funded better, worse, or relatively similar to the projects that would have funded in a world without Kickstarter?

As a concluding thought, crowdfunding, as evidenced by Kickstarter, provides a vehicle for funding previously unavailable. While that contribution alone is intriguing, the emergence of a platform with this level of transparency and access is unprecedented. While it seems obvious that this benefits entrepreneurs, researchers and educators, its benefits likely go beyond these obvious points. Clearly a large number of backers are willingly engaging in the funding of these ventures, why do they participate and how often do they participate? Gaining an understanding of these motivations and perceived benefits might offer insights towards future development of crowd based participation.

Small business pervades our lives and entrepreneurship inspires us, yet access to small business (and particularly entrepreneurs) remains one of the major difficulties in small business research. As researchers, this complicates the generalizability of our findings. We often find ourselves facing mortality problems. It is hard enough gaining information on firms that started and failed, it is nearly impossible to conduct wide-ranging research on firms that failed to start. Having access to widely used and highly transparent platforms should prove beneficial on multiple fronts. In this paper we have introduced the Kickstarter platform, indicated its prior successes and offered ideas for the integration of crowdfunding into traditional entrepreneurship preparation. This is an emergent phenomenon and we have likely only seen the prologue.
REFERENCES


Examining the Effectiveness of State Funded Angel Investor Tax Credits: Initial Empirical Analysis

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Many states are issuing tax credits for qualifying angel investments in order to encourage economic growth and development. While this policy makes intuitive sense, there has been no systematic evaluation of the outcomes of these programs. This study is a first step toward empirically examining the effectiveness of angel investment tax credit programs. We utilize the Kauffman Entrepreneurial Activity Index as an outcome to measure the initial statewide impact of the introduction of angel tax credit programs. Initial results support the introduction of angel tax credit programs does increase entrepreneurial activity on a state level.

Why should policy makers consider providing angel investment tax credits? The intuitive answer is to provide an incentive to increase early stage investment in high growth potential new ventures. This should in turn lead to the creation of higher paying knowledge-based jobs, and ultimately, an increase in tax revenue. But this chain of events is based upon the assumption that angel investment tax credits lead to an increase in entrepreneurial activity. Therefore, research that investigates this linkage is needed.

The purpose of this paper is to empirically examine the relationship between angel investment tax credits and corresponding, state-specific entrepreneurial activity. First, we review angel investment and the angel tax credit programs. Next, we outline our proposed method for examining the relationship between angel investment tax credits and entrepreneurial activity. Finally, we report the results of these analyses and discuss the findings and implications for researchers, practitioners, and policy makers.

LITERATURE REVIEW

ANGEL INVESTORS

Both scholars and practitioners of entrepreneurship alike have been known to repeat the old saying that the first place to look for investors is the three F’s: Family, Friends, and Fools. It has also been joked that angel investors did not receive their title because they are like angels helping entrepreneurs to finance their emerging businesses, but instead because they are more likely to receive their return on investment in the afterlife. These two rather cynical epigrams highlight two unique features of angel investment. First, seeking funding for start-ups and early stage ventures is both difficult and necessary for aspiring entrepreneurs and angel investors can fill that important need (Brinlee, Franklin, Bell & Bullock, 2004). Second, because angels provide equity investments as opposed to loans, they assume a great deal of risk, and therefore require high returns from their successful investments (Bell, 2007). In order for policy makers to provide incentives that will encourage greater investments it is necessary to understand the nature and motivations of angel investors in general.

Angel investors vary widely in the range of equity investments they provide to entrepreneurs who are launching, expanding, or acquiring a new business. Typically, angels provide equity investment ranging from about $25,000 to $2,000,000. The angels will generally expect to receive their investments back with a significant return either through a share of a successful venture’s profits, or through the company’s eventual exit strategy, such as being acquired by a larger firm, or through an Initial Public Offering. While angel investors may have many secondary motivations, such as the thrill of
entrepreneurship, to support their local community, to search for a balanced investment portfolio, to remain engaged in the business community beyond retirement, or out of a desire to keep learning, their primary motivation is financial return (Bell, 2007). This leads to the likely conclusion that anything that policy makers can do to increase the likelihood of financial returns will encourage more investment. One method that many state lawmakers have used to increase financial incentives for angels is to provide them tax credits for their investments in new ventures within their states.

ANGEL INVESTMENT TAX CREDITS

Hendon, Bell, Blair, and Martin (2012) found that more than 20 states offered angel investment tax credit programs for the purpose of increasing entrepreneurial activity. These programs varied widely in terms of the maximum credit allowed from a low of 10% in Vermont to a high of 100% in Hawaii. Additionally, some states impose a cap on the total amount available for the tax credit, either per investment by company, or as a total for the state itself.

The authors (Hendon et al., 2012) noted that two other key factors on which these equity tax credits varied by state was whether or not they were refundable, transferable, both, or neither. Refundable tax credits are those for which the investor can receive cash back from the state government if the credit exceeds the amount owed to the state in income tax for the year. In other words, the investor can receive a refund back from the state in excess of the investor tax liability for that year. Transferrable tax credits are those for which credits for out of state investors in partnerships with in-state investors can be transferred (Hayter, 2008). This is often accomplished by the out of state investor selling the tax credit at a discount which is typically 10-20% on the dollar.

In addition to the variance in the manner in which the angel tax credit programs are implemented from state to state, there is also a great deal of difference in the way these states attempt to measure the outcomes of these programs. For example, the New Mexico Development Department reported $736,468 in new investment that they attributed to the Angel Investment Tax Credit (New Mexico Development Department, 2012). However, opponents of angel tax credits point out that it is difficult to determine how much of this amount would have been invested anyway without the program in place. The difficulty in providing quantifiable evidence of the outcomes of these programs has led to some policy makers questioning the need for these programs (Hendon et al., 2012). Thus, the primary contribution of this study will be to provide a first step in the evaluation of evidence of the effectiveness of angel investment tax credit programs in terms of promoting entrepreneurial activity.

The key argument in favor of state angel investment tax credits is that they will increase entrepreneurial activity within the state. The primary research question for this study is whether or not there is any empirical evidence to support this assertion. In order to test this assertion, we will utilize both descriptive statistics and tests of statistical significance. Thus, our primary hypothesis reads as follows.

Hypothesis: The rate of increase in entrepreneurial activity will be significantly greater after the introduction of a state angel investment tax credit programs.

METHODOLOGY

The data for the sample were collected from multiple sources. The data for angel investment tax credit incentives, which include all 50 states in the United States of America, were collected by systematic online search for information for angel investment tax credit programs. For each state, data were recorded for: 1) the status of their angel investment tax credit program or lack thereof; 2) the maximum credit % allowed; 3) whether or not the tax credits are refundable; and 4) whether or not the tax credits are transferable.
The data utilized as a proxy for entrepreneurial activity are publicly available from the website of the Ewing Marion Kauffman Foundation (www.kauffman.org). The Kauffman Index of Entrepreneurial Activity (KIEA) has been capturing new business owners in their first month of significant business activity from 1996 to the present. The KIEA measures new business development across the country by tracking the percentage of adult, non-business owners that start businesses each month. The data is available by state by year, as well as in many other demographic categories (Fairlie, 2012). As of the time of this study, the data are publicly available for each of the 50 states for the years 1996 to 2011.

In addition to the data for state angel investment tax credit programs and entrepreneurial activity by state, data for the real annual GDP growth percentage for the nation were collected for the years 1996 to 2011 (The World Bank, 2012). This allows greater insight into the effectiveness of angel tax credits by allowing us to consider the national economy each year as we track the changes in entrepreneurial activity by state over time.

RESULTS

The general descriptive statistics for the sample are presented in Table 1. Thirty-two states have implemented Angel Investor Tax Credit Programs, and 29 are still in operation. Oklahoma’s program expired on the first day of 2012 and Vermont’s expired in 2008. New Mexico’s program expired in 2011, but in 2012 it was extended to 2016 by unanimous vote in the New Mexico state legislature (NewMexicoVotes.org, 2012). Louisiana’s program was also allowed to expire in 2009, but was reinstated in 2011 (Louisiana Economic Development, 2012). The maximum tax credit percentage of the 31 states ranged from 10-100% with a mean of 35% and a standard deviation of 18%. Three states, Maryland, Minnesota, and Nebraska offered refundable tax credits to angel investors. Five states, Arkansas, Hawaii, Kansas, Kentucky, and Maine offered transferable tax credits to angel investors.

Table 1: Study Overview Descriptive Statistics

| Total Number of States That Have Attempted Angel Investment Tax Credit Programs | 32 |
| Total Number of States That Have Angel Investment Tax Credit Programs in Operation as of 2012 | 30 |
| Maximum Credit % | 10-100% |
| Mean | 35% |
| Standard Deviation | 18% |
| Total Number of States with Refundable Tax Credit Programs | 3 |
| Total Number of States with Transferable Tax Credit Programs | 5 |

The change in entrepreneurial activity for states with angel investment tax credit programs within the first two years of implementation are reported in Table 2. Of the 31 states that have implemented angel investment tax credit programs, 29 states have full data to compare entrepreneurial activity before and after implementation. North Dakota began its angel tax credit program in 1989 and Ohio began its 1996. The Kauffman Organization began collecting data on entrepreneurial activity in 1996 and therefore data for 1988 and 1995 are unavailable to be used as controls to measure change for North Dakota and Ohio.
Table 2: Change in Entrepreneurial Activity after Angel Tax Program Introduction

| Number of States with an Increase in Entrepreneurial Activity within first two years of Program | 22 |
| Of these 22: | |
| Transferable | 4 |
| Refundable | 2 |
| Implemented during downturn in National GDP growth | 8 |

| Number of States Without Increase in Entrepreneurial Activity within first two years of Program | 7 |
| Of these 7: | |
| Less than a year since program implementation | 4 |
| Credit % less than or equal to 35 | 4 |
| Implemented during downturn in National GDP growth | 7 |

Of the 29 states that implemented angel investment tax credit programs between 1997 and 2011, 22 (75%) displayed an increase in entrepreneurial activity within the first two years of the program. Of these 22 successful programs, four had the feature of being transferable, and 2 were refundable. Additionally, eight of these states implemented their program during a slowdown in the national economy as measured by USA GDP per capita annual growth and still managed to demonstrate an increase in entrepreneurial activity. It should be noted that all 7 of the states that did not increase their entrepreneurial activity within the first two years implemented their programs during a downturn in the economy. Additionally, four of these seven states implemented their program in 2011 and the data on entrepreneurial activity for 2012 is not yet available as of the time of this study. Therefore, they may still display an increase in entrepreneurial activity within the timeframe of the 22 successful states.

In addition to the preliminary empirical evidence provided by the above descriptive statistics, t-tests were performed (Cohen, Cohen, West, & Aiken, 2003) in order to test for statistical significance in the change in entrepreneurial activity for those states that introduced angel investment tax credits during the time span of the study sample. The results appear in Table 3 and Table 4 below:

Table 3: Paired Sample t-Test

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Mean Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Activity Year Prior</td>
<td>28.35</td>
<td>5.373</td>
<td>1.303</td>
</tr>
<tr>
<td>Average of 2 Years After Implementation</td>
<td>32.65</td>
<td>8.215</td>
<td>1.993</td>
</tr>
</tbody>
</table>

Table 4: Entrepreneurial Activity Year Prior Vs. Average of 2 Years After Implementation

<table>
<thead>
<tr>
<th>Paired Differences</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>S.E. Mean</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Activity Year Prior vs. Average of 2 Years After Implementation</td>
<td>-4.294</td>
<td>7.81</td>
<td>1.89</td>
<td>-2.267</td>
<td>16</td>
<td>.038</td>
</tr>
</tbody>
</table>

As indicated in Table 3 and Table 4 above, the mean entrepreneurial activity index across the two years following implementation of an angel investment tax credit was significantly higher than the mean entrepreneurial activity index for the year prior to implementation. Thus, Hypothesis 1 was fully supported.
DISCUSSION AND IMPLICATIONS

The purpose of this study is to empirically examine the relationship between angel tax investment credits and state-level entrepreneurial activity. This answers the call to, “focus upon any identifiable impact that states may receive as a result of the credit” (Hendon et al., 2012). The results support the theory that state angel investment tax credits influence state level entrepreneurial activity. Twenty-two out of 29 states that implemented an angel tax credit program displayed an increase in entrepreneurial activity within two years. Fifteen of the 29 states implemented their programs during times of economic slowdowns and eight of them increased in entrepreneurial activity in spite of this. All seven that did not see an increase in entrepreneurial activity launched their programs during economic slowdowns. It is quite possible that their economic situation would have been worse without the investment incentives provide by the angel tax credits. We believe that this is the first study that systematically examines the outcomes of angel tax credits as measured by entrepreneurial activity.

This stream of research is an attempt to understand both the effectiveness of equity investor state allocated tax credits and the economic return to the state. Historically, one of the strongest arguments opposing tax credit programs is the lack of valid measures of effectiveness. This study is a first step toward objectively measuring the outcomes of angel investment tax credits; our findings suggest that the tax credit programs can increase entrepreneurial activity. This has important implications for policymakers because entrepreneurship creates new businesses and new jobs, increases technological competition, and improves the productivity of the state (Holden, 2007).

In addition to the relevance of this research for assisting policymakers in understanding the true impact of tax credits upon entrepreneurial activity, the credits will arguably also impact a nascent venture’s ability to raise capital. The availability of tax credits may ease the pathway to raise early stage funding. Conversely, the absence of credits may impede or delay early stage fund raising. In addition to examining whether or not tax credits enhance the ability to raise funds, this research also has implications for examining the possibility that credits provide mechanisms to speed up the funding process and/or offer investment to ventures once thought to be outside the risk profile of the angel investor community.

Finally, with limited resources, particularly in regard to allocation of precious time, early stage ventures are required to embark on a bureaucratic red tape adventure to qualify for tax credits. This research could well assist nascent ventures in the time allocation decision-making process to pursue or not to pursue tax credits.

Future research should expand upon this study and examine the link between angel tax credits and entrepreneurial activity. Additional outcome variables such as new jobs, new firms, increased investment, and creation of high growth potential ventures should be investigated. The impact of theangel tax credits upon states in times of economic downturn should be examined as well. In addition, structural equation modeling and hierarchical time series regression analyses controlling for the economy may provide new insights and could provide stronger evidence of the effectiveness of the angel investment tax credit programs.

In addition, more qualitative data regarding investor perception and influences of the tax credits should be explored. This vein of research, in conjunction with the quantitative assessment data, may offer insights into aspects of the psychology of angel decision-making, perceptions of risk and risk aversion, and triggering events for actual investment.
CONCLUSION

The purpose of this study was to empirically examine the relationship between angel tax investment credits and state level entrepreneurial activity. These preliminary results support the argument that state angel investment tax credits influence state level entrepreneurial activity. This is important because lawmakers continually debate the benefits of these programs in light of the cost in lost tax revenue. While more research is needed in this area, this preliminary study suggests that the angel tax credits do provide an incentive to increase early stage investment in high growth potential new ventures, which should in turn lead to the creation of higher paying knowledge based jobs and ultimately an increase in tax revenue.

REFERENCES


Entrepreneur as “End”repreneur: The Intention to Retire

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This research addresses a gap in the entrepreneurial research literature by exploring the retirement of entrepreneurs. We adopt the term “endrepreneur”, referring to the entrepreneur who faces issues beyond the startup phase. What informs an endrepreneur’s intention to retire? Perhaps retirement is a thoughtful, meaningful path illuminated by objective indicators and proactivity. Or, perhaps the endrepreneur is reactive, driven by the notion of the ‘right’ age to retire, ready or not. Using the theory of planned behavior and with contributions from the fields of entrepreneurial exit, business valuation, and retirement, this research contributes to an understudied area. We enlist data from a 2005 retirement survey of business owners by the National Federation of Independent Businesses. Consistent with previous studies of exit intention, the intention to retire is influenced by subjective factors, in this case a generational cohort and the belief that one can control an exit using a phase out period. We do not find support for the intention to retire using objective factors such as company profitability or barriers to exit. We tentatively suggest that the intention to retire is informed by subjective factors and perhaps there is a reliance on the subjective clues of the retirements of wage and salaried workers. Acknowledging and understanding this significant subset of exit by endrepreneurs from their companies has implications for business owners themselves, their employees, policy makers, business advisors, and the educators of students who may start, work for, or else advise smaller companies.

“Plans are only good intentions unless they immediately degenerate into hard work.”- Peter Drucker

Small businesses employed almost 50 percent of all workers or 55 million employees in 2010 (U.S. Small Business Administration 2011). As a topic more suited to practice than theory, the exits of small business owners and entrepreneurs from their companies has recently gained attention in academic literature (DeTienne, 2010 & 2012); e.g. Wennberg, Wiklund, DeTienne, Cardon, 2009). Some connections – between the intention to exit and subsequent actions taken – are not measured nor understood (Leroy, Manigart & Meuleman, 2008). Referred to as ‘entrepreneurial exit’, ‘small business owner exit’, or even ‘business exit’ in the literature, this understudied area is one that affects the owners of roughly 99 percent of all United States businesses.

As compared with research on entrepreneurial entry, less energy is spent on understanding the processes that lead to exit and on educating entrepreneurs and small business owners about the exit (Moore, 1989). In the U.S., the focus on business entry is almost systematic. Business starts are celebrated by events, such as business plan competitions, Start Up weekends, elevator pitches and reality shows, but also enabled by structures, such as venture capital, angel networks, tax incentives, incubation, and seed capital. In economic downturns people go into business for themselves due to the push from a job rather than from the pull of a genuine business idea or opportunity (van Wissen, 2002). Business entry is challenging, risky and dynamic – and well understood. An outcome of the focus on the startup is that many firms are started without much thought to exit (DeTienne, 2008). Exit decisions are made in late stages with little lead time for adequate study and analysis (e.g. Porter, 1975; Warrillow, 2010; McKaskill, 2010).

Understanding and teaching about the exit of small business owners and entrepreneurs from their companies has implications for educators and students -- anyone who will start, advise or supply smaller companies. In the U.S., advisors include lawyers, bankers, and accountants, as well as organizations such as the Small Business Institute (SBI) and the Small Business Development centers (SBDC) that provide
recommendations that can lead to better small business performance (Sonfield, 2008). SBIs and SBDCs are typically housed at or otherwise integrated with a university. The outreach, education, and practical research that are the cornerstone of their mission engages students and faculty in business counseling. The important and overlooked topic of the intention of business owners to exit presents opportunities for advisors to engage clients with discussion, counseling and education.

In particular, the skill set required for a successful retirement is quite different than the skill set for starting a company. Even when retirement does not involve company ownership, i.e. for wage and salaried workers, the path to retirement is difficult to navigate (Ekerdt & Clark, 2001). With our exploration, we ask what would inform an entrepreneur’s intention to retire. Is retirement a thoughtful, meaningful path illuminated by objective indicators and proactivity? Or, is it reactive, perhaps informed by subjective factors and clues, such as the notion of the ‘right’ age to retire, ready or not? We posit our research question: is an entrepreneur’s intention to exit moderated by objective factors?

Retirement of the wage and salaried worker has been studied extensively (e.g. Ekerdt, Kosloski, & DeViney, 2000; Kim, Kwon, & Anderson 2005; Wang & Schultz, 2010) and we address a gap in understanding the intention to exit, or in this case, to retire. It is likely that owners of smaller companies will be less sophisticated and possibly less prepared for retirement (Lichtenstein, 2010). Neither the definition of nor the notion of ‘retirement’ are clear cut issues. Traditional models of retirement are being challenged given recent economic and market conditions. In the U.S. blends of work and leisure as well as delayed retirement are being used by an aging population as a way to create a bridge from full time work to full time retirement. There is growing reference in the popular media to such concepts as, “the new face of retirement,” referring to those wage and salaried workers who have left full time employment but who still work, in a part time capacity (e.g. Knowledge @ Wharton, 2013).

The retirement of entrepreneurs is defined for purposes of this paper as the owner of a small business ceasing to be fully employed and no longer owning the business. For many entrepreneurs, retirement will be their one and only exit from the business they own (N.F.I.B., 2005). Using the theory of planned behavior and with contributions from the fields of entrepreneurship, business valuation, and retirement, this research brings insight to an understudied area, extending the research efforts and the logic of two studies of entrepreneurial exit. Headd (2003) studied types of exit, debunking the long held assumption that business closures are due to failure. He found that data are limited in capturing the reasons for closure, and that successful business closure can involve foresight and planning. A second study introduced the theory of planned behavior to explain the intentions of the owners of micro businesses (employees fewer than 10) who had already exited their companies (Leroy et al., 2008). Because both studies involved entrepreneurs that already exited, the authors acknowledge survivor bias in evaluating the antecedents to the intention to exit. With this study, using responses from entrepreneurs who have not yet exited, we consider whether the antecedents are objective, subjective, or both.

In defining the sample frame, the term ‘small business’ presents complications because there are different qualitative and quantitative definitions and assumptions, depending on the source. ‘Small business’ defines a company with one employee or 500, formed as a sole proprietor or legally more complex as a corporation, across many industries and locations. Some definitions are based on the number of employees, asset size, market capitalization and annual revenues (Forster-Holt, 2009). To answer the question, what makes a business “small”? (Forster-Holt, 2009) this section of the paper adopts an operational definition of micro, small and medium companies to justify the sample frame of employees less than 249, used by this research. Firms of less than 20 employees represent 90 percent of small firms in the U.S. and firms of less than 250 employees represent 99 percent of small firms in the U.S., according to the Small Business Administration. Previous studies suggested the use of companies with more than 10 employees in order to test how business owners approach intention to exit (Leroy et al., 2008).
Entrepreneurship, as a phase of a business, generally relates to the span of time and the related activities between the business idea and the business inception, typically not linked with exit (e.g. Moore, 1989). Challenges to developing a theory of entrepreneurial exit begin with the definition of some terms. The term ‘entrepreneur’ is overused and unclear, sometimes including small business owners, sometimes not (Chatterji, 2012). ‘Entrepreneurial exit’ is generally used in the literature to refer to the exit of the entrepreneur from the business; ‘exit’ can mean sale, closure, or transfer; can be planned or unplanned; at the early, middle or late stage, by founders or owner/managers (Headd, 2003; e.g. Moore, 1989). We suggest the use of a short hand reference to gather the various terms that refer to exiting business owners. This paper adopts the term “endrepreneurship” (“END-ruh-preneurship”, that is, the focus is “end”) (Forster-Holt, 2010), defined as the progression of time, effort and risk toward exit and underlies the entire period of association the entrepreneur has with the business as its primary owner. This suggests that more of an entrepreneur’s association with a business is spent on exit than on entry. By extension, the term “endrepreneur” is used to represent the exiting owner (Forster-Holt, 2010). Not all business owners see themselves as entrepreneurs, but all business owners will become endrepreneurs. In contrast with the uneven labeling of entrepreneurs versus business owners – are they entrepreneurs or not? (Chatterji, 2012) -- endrepreneurship encourages a common language of owner exit for conversations to be held by policy makers, those in economic planning and development, investors, academics, practitioners, business owners, their families, and their employees.

LITERATURE REVIEW

ENTREPRENEURIAL EXIT

In exploring the exit process and defining domains for theory building, researchers in the entrepreneurship exit literature have focused on several important areas. These include motivations for exit and types of exits (e.g. Cardon, Zietsma, Saparito, Matherne, & Davis 2005; DeTienne & Cardon, 2012) and the impact of the human capital of the founder on exit likelihood (e.g. DeTienne & Cardon, 2006). Exit has been suggested as a phase of the business life cycle. DeTienne (2008) proposed that phases of the exit process reflect a founder’s exit strategy; any outcome that is planned for is desirable (Headd, 2003). Studies have tended to focus on who the entrepreneur or founder is, and use theoretical frameworks focused on the entrepreneur such as threshold theory, goal-setting theory, and human capital theory (Justo & DeTienne, 2008; DeTienne, 2008).

The exit of business owners falls into the two broad categories of voluntary and involuntary exits and range from unsuccessful (closure with losses) to successful (reaching owner’s tangible and intangible goals, with no loss) (Headd, 2003). Wennberg et al. (2010) suggest four exit outcomes: exit by harvest sale or distress sale, and exit by harvest liquidation or distress liquidation – each based on different levels of firm performance and influenced by entrepreneurial experience, but not linked with the intention to exit nor to the intention to retire.

The theory of planned behavior. In Ajzen’s theory of planned behavior (1991), subjective attitudes drive intentions, and intentions drive behavior. Shown in figure 1, subjective attitudes are a combination of social norms, desirability of the action, and perceived behavioral control over the action. Together these influence one’s intentions and presumably subsequent behaviors (Ajzen, 1991). Attitudes toward the behavior refer to a person’s evaluation of the behavior, and subjective norms refer to the perception of social pressure that will influence the desirability to perform or not perform the behavior. Intention was assumed by Ajzen to be the immediate antecedent of behavior. Intention to perform a behavior (in our case, exit to retirement) is strongest when attitude and subjective norm are favorable, and when perceived control is strong (Ajzen, 1988).
The theory of planned behavior assumes that a significant amount of behavior is under the control of the actor, and can explain behavior that is hard to observe or has unpredictable time lags (MacMillan & Katz, 1992). The theory of planned behavior has been used by entrepreneurship scholars to explain entry decisions (Kolvereid & Isaksen 2006; Krueger, Reilly, & Carsrud, 2000) and exit intentions based on founder age and experience. Specifically Leroy et al. (2008) applied the theory of planned behavior in a study of the owner’s intention to transfer a company as an exit strategy. Intentions to exit were shown to have a mediating effect on outcome, but business related characteristics explained the companies that would have a higher probability of transfer to a new owner, instead of closure. This suggests the inclusion of business valuation factors.

**Business valuation.** The business valuation literature suggests that managers must recognize and factor exit barriers into their decisions to enter businesses (Porter, 1975). This is largely an objective set of topics. The same factors that create barriers to entry can act as barriers to exit, resulting in three broad classes of exit barriers: structural or economic, corporate strategy exit barriers, and managerial exit barriers (Porter, 1975). Examples of exit barriers for smaller companies might include a high level of capital investment, or obtaining a professional degree or licensing (McKaskill, 2010, Warrillow, 2010). Higher levels of intangible assets and especially tacit knowledge lead to a lower probability of business transfer (Leroy et al., 2008). The entrepreneur must consider of barriers to exit when intending to retire, especially if the sale of the business is an important vehicle for funding retirement.

Entrepreneurs who plan to sell their companies would ideally manage for value. That is, strategic decisions would be based on objective indicators. Some entrepreneurs believe they can rely on the sale of the business to partially or fully fund their retirement, and some of them may be right, but the timing and valuation of a sale make it a risky portion of retirement planning (N.F.I.B., 2005). Each year a few small and mid-sized companies are sold, and most sell for less than the owner’s estimation of what it is worth (Warrillow, 2010). Valuations of small companies in certain industry sectors have decreased in recent years, and there has been an increase in seller financing in order to sell the business (McCarthy, 2009). Older entrepreneurs are more likely to prefer the sale of the business over continued operations and liquidation (Wennberg et al., 2010). The length of time a person has owned a company may provide clues to the timing of the exit, ready or not. According to a Kauffman Foundation report, the average age that a person starts a company, 40, and a typical length of ownership is estimated to be at least 20 years (Wadhwa, Aggarwal, Holly, & Salkevel, 2009).

**Retirement.** In the retirement preparedness literature, we see objective topics such as financial steps toward retirement, and we see subjective topics, such as when to retire. For the most part the entrepreneur has been overlooked; instead there is a bias toward the wage and salaried worker.
Although retirement age is an individual decision, homogeneity exists among age cohorts: among wage and salaried workers, retirement activities generally increase with proximity to retirement age (Atchley, 1982). The ages of 59 ½, 62, 65, 67, and 70 ½ form what are generally accepted “retirement ages” in the U.S., defined by the government in its tax code and other policy directives toward Individual Retirement Account (IRA) investment and withdrawal, the receipt of Medicare, and the early, normal and delayed receipt of Social Security benefits (Modigliani, 1988). Together, these ages provide an administered, systemic tool to move wage and salaried workers through financial and human capital life cycles and provide signals and clues as to a “normal” retirement age (Modigliani, 1988). For example the retirement decisions of wage and salaried workers generally reveal systemic effects and empirical regularity in general, as well as the use of heuristics (Benartzi & Thaler, 2007).

Wage and salaried workers divide along age cohorts who exhibit workforce exit patterns. For example, within the same company, wage and salaried workers take their cues from each other as to what constitutes accepted timing of retirement preparation behaviors (Ekerdt & Clark, 2001). In general for wage and salaried workers, data shows that although retirement rates rise steeply at the ages that workers become eligible for Social Security (62 and 65), many people remain in the workforce, either full time or part time, and the structure and availability of pensions strongly influence the decision about when to retire (National Institute on Aging, 2007). According to the 2012 U.S. report from the Global Entrepreneurship Monitor, 42.7 percent of working Americans are so-called owner-managers of a business (owners who work for themselves) (Kelley, Ali, Brush, Corbett, Majbouri, & Rogoff, 2012). Specifically, small business owners in 2010 reported that they would retire on average at age 72.6, while the expected retirement age among employees was age 68.4 (Gurley-Calvez, Kapinos, & Bruce, 2012).

Financial gerontologists, those who study the lifetime wealth cycle, expect that generational experiences, as well as differing longevity and life expectancy will influence the five major categories of those alive and in the workforce today. Carlson (2009) has noted that contrasts in childhood, size of generations, historical and cultural events, socioeconomic conditions, macroeconomic conditions, and longevity are factors that affect each generation differently. This uniqueness becomes the mark on the generation, and is manifested in the generational divide seen in political, social and consumptive choices (Cutler, 2005). Carlson (2009) has labeled four of these generations: the good warriors (birth years 1902-1928), the lucky few (birth years 1929-1946), the baby boom (birth years 1946-1964), and those born post baby boom (birth year after 1964).

Both the self-employed and wage and salaried workers have important responsibilities for retirement preparation. Wage and salaried workers have for some time been exposed to employer-sponsored defined contribution and tax deferred retirement plans, and a standardization of private firm retirement planning has evolved. Pension coverage rates are much lower for business owners than for non-business owners (Lichtenstein, 2010). According to the N.F.I.B. survey discussion (2005) thirty percent of small businesses sponsor a pension plan for their employees, most commonly a self-directed 401(k) plan, and typically, such plans were instituted about five years after the business was started. Of those businesses not offering a pension plan, the majority cited that the priority to offer health insurance precluded their ability to offer retirement planning for their employees.

Lusardi and Mitchell’s (2007) work showed low levels of financial literacy in U.S. adults, and leads us to question what makes a person qualified to judge when she or he can stop working. In a study released by the N.F.I.B., 46 percent of small business owners indicated that they never intend to fully retire (N.F.I.B., 2005). Endrepreneurs may have access to the general rules of thumb for retirement age, but the ownership of a company adds a layer of retirement preparation that is not faced by employees. Considered mostly a positive attribute, entrepreneurs are risk-averse toward market demand but are over confident in their own abilities, have longer range planning horizons, and are more optimistic than non-entrepreneurs (Wu & Knott, 2005). However, as endrepreneurs, they are financially vulnerable (i.e.
wealth and income derived from the same source) and also generally hold a more conservative household wealth portfolio than wage and salaried workers (Hurst & Lusardi, 2004). Entrepreneurs allocate a lower percentage of their wealth to retirement accounts than non-business owners do; instead the business comprises the bulk of their wealth (Lichtenstein, 2010).

The estimation of when a person is ready financially to retire may demonstrate the influence of attitude and optimism for economic choice. (Puri & Robinson, 2005). The most common sources of expected income that business owners envision as funding retirement, identified by 80 percent of respondents, was the sale of the business (N.F.I.B. 2005). The timing of the sale therefore becomes a risk for successful retirement, especially in situations where a sale needs to occur with little or no notice, such as for health reasons. The burden may be on the owner to become a debt holder in the event of the sale of the company. To take on the financing of the sale constitutes a risky basis for retirement planning, yet as much as 90 percent of sales of small business involve some sort of owner financing (US Small Business Administration, 2012).

Hypotheses. In hypothesis development, the dependent variable is the intention to retire. The first hypothesis considers the theory of planned behavior where intention depends on one’s reliance on subjective variables. We also draw from the subjective areas, such as heuristics, as noted in the review of the retirement literature. We then test for variables that moderate the intention to retire using objective elements from the literatures of entrepreneurial exit, business valuation and retirement.

Hypothesis 1: Subjective factors will positively influence the intention to retire.

Hypothesis 2: Subjective plus objective factors will positively influence the intention to retire.

Hypothesis 3: Objective factors will positively influence the intention to retire.

METHODS

Due to the exploratory nature of this paper, we tested the hypotheses using the 2005 Retirement Survey by the National Federation of Independent Businesses (N.F.I.B.). The survey data was gathered by interviews conducted between July 11 and August 2, 2005 by the N.F.I.B. Research Foundation in partnership with the executive interviewing group of the Gallup Organization. The 2005 survey focused on retirement intentions and some exit behaviors of smaller entrepreneurs (employees fewer than 250). The sample of 753 companies was selected from Dunn and Bradstreet files, and is considered by the N.F.I.B. to be representative of the small business population with the exception that the random stratified sample design avoided oversampling the smallest of firms. That is, if a random sample had been selected, a larger percent of respondents would have represented businesses with 1-9 employees.

The respondents were distributed as follows:

- 1-9 employees (352 interviews, 47 percent of total)
- 10-19 employees (200 interviews, 27 percent of total)
- 20-249 employees (201 interviews, 27 percent of total)

A strength of the N.F.I.B. survey is its focus on retirement, allowing us to make tentative observations about whether the intention to retire is influenced by objective factors as well as subjective ones. The survey directly asks about retirement and has variables to measure or else proxy objective and subjective factors and captures the owner’s perception of control. The survey was not designed to follow the entrepreneur from the stated intention through outcomes thereby avoiding the survivor bias acknowledged by previous studies (Headd, 2003; Leroy et al., 2008).
The unit of analysis is the entrepreneur who intends to retire. In the survey, retirement is defined as the entrepreneur/owner of the business ceasing to be fully employed by, and no longer owning the business. Roughly half the respondents, 46 percent, replied that they would never retire and over half (54%) replied that they would. Though the N.F.I.B. survey was not originally designed as a questionnaire to test the theory of planned behavior, we feel that it meets with Ajzen’s (2006) guidance for such a survey. The moderating variables are used to test for indications that the owner has demonstrated connections to the objective financial concepts that lead to exit, for example an awareness of business valuation concepts.

Figure 2: Model for Testing the Intention to Retire

Subjective variables per Ajzen’s theory of planned behavior (H1)
- Heuristic for retirement age
- Birth year cohort
- Owner believes savings are adequate
- Plans to phase out
- Plans to sell the business

Subjective + Objective variables (H2)

Objective variables (H3)
- Barriers to exit
- Stock market downturn
- Profitability of company down in last 2 years
- Owned Business >20 years
- Number of employees

Intention to retire? Yes/No

Description of the variables. Figure 2 shows the model for testing and Table 1 relates the descriptions of the variables, means, and standard deviations. Here we briefly discuss the variables and the methods for analysis.

a. Subjective norm. When considering when to exit the workforce, wage and salaried workers are faced with decisions such as how much to save, where to invest monies in retirement plans, and what age to exit the workforce. Subjective norms such as the owner’s retirement planning can be represented by beliefs, cohorts, and heuristics, or rules of thumb, each serving as a proxy for variables that explain social desirability. In the N.F.I.B. survey, subjective norm is demonstrated by the owner indicating ‘buy in’ to the social institution of retirement. The owner is asked if they have given thought to retirement, with a yes or no response. Another variable that measures subjective norm is the use by the owner of a heuristic for retirement age and by the generational clues provided by the entrepreneur’s cohort group. The retirement age heuristic is operationalized by coding a “1” for the normalized age of retirement for a wage and salaried worker, such as 62, 65, 67, and 70; all other answers were coded “0”.

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b. Desirability of the action. Wage and salaried workers divide along age cohorts who exhibit workforce exit patterns. In the base model, the moderating variable of cohort group is operationalized into a discreet variable representing cohort using the birth years of owners according to guidance by Carlson (2009). Other variables that indicate the desirability of the action are the presence of a pension plan and adequate retirement savings.

c. Perceived control. Variables that proxy for Ajzen’s desirability and perceived control over retirement are: has the owner saved for retirement, are they planning to phase out, and are they planning to sell the business. Though entrepreneurs don’t take uncalculated risks, they have a comfort with risk and especially exhibit confidence in their own abilities (Evans & Jovanovic, 1989; Puri & Robinson, 2005). As with Leroy et al., (2008), this survey contains variables to measure perceived controls represented by the entrepreneur’s belief of the ability to control the timing and transfer of the business. Phasing out an owner’s exit (so called ‘bridge employment’) is not often an option that is within the control of an entrepreneur but instead is dependent on the needs of the succeeding owner of the business (Warrillow, 2010).

d. Objective variables. The selection of moderating variables was influenced by business valuation literature. Moderating variables that are of interest include barriers to exit, recent trends in profitability of the business, recent downturn of the stock market as a proxy for general economic conditions, and the number of years as the business owner.

Moderating, objective variables were operationalized as follows: barriers to exit were indicated by NAICS codes using a dichotomous variable created around the industry within which the firm competes. Firms competing in capital intensive industries or where requiring a professional license or a trade were assigned a 1. These are represented by NAICS code 11, 21, 22, 23, 33, 42, 45, 49, 51, 52, 53, 54, 55, 56, 61, 62, 71, 72, and 81. All other industries were assigned a 0. Other variables captured direct answers: have sales been down last 2 years (yes/no), have recent downturns in stock market affected intention (yes/no), and what is the number of years they owned the business (0-19 years, and 20 plus years).

Table 1. N.F.I.B. Survey Summary Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min and Max</th>
<th>Mean</th>
<th>Mode (frequency)</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intention (dependent)</td>
<td>753</td>
<td>0 – 1</td>
<td>.55</td>
<td>0 (46%)</td>
<td>.497</td>
</tr>
<tr>
<td>Subjective variables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cohort (social norm)</td>
<td>753</td>
<td>1 – 4</td>
<td>2.97</td>
<td>3 (57%)</td>
<td>.702</td>
</tr>
<tr>
<td>Heuristic (social norm)</td>
<td>753</td>
<td>0 – 1</td>
<td>.358</td>
<td>1 (32%)</td>
<td>.723</td>
</tr>
<tr>
<td>Thought about retire (desire)</td>
<td>753</td>
<td>0 – 1</td>
<td>.289</td>
<td>1 (61%)</td>
<td>.454</td>
</tr>
<tr>
<td>Phase out (control)</td>
<td>753</td>
<td>0 – 1</td>
<td>.288</td>
<td>1 (37%)</td>
<td>.453</td>
</tr>
<tr>
<td>Plan to sell (control)</td>
<td>753</td>
<td>0 – 1</td>
<td>.604</td>
<td>1(39%)</td>
<td>.490</td>
</tr>
<tr>
<td>Pension in place (desire, control)</td>
<td>753</td>
<td>0 – 1</td>
<td>.834</td>
<td>1(61%)</td>
<td>.372</td>
</tr>
<tr>
<td>Adequate savings (desire, control)</td>
<td>753</td>
<td>0 – 1</td>
<td>.395</td>
<td>1 (31%)</td>
<td>.489</td>
</tr>
<tr>
<td>Objective variables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Years owned &gt; 20</td>
<td>753</td>
<td>0 – 1</td>
<td>.410</td>
<td>1 (59%)</td>
<td>.492</td>
</tr>
<tr>
<td>Barriers to exit</td>
<td>753</td>
<td>0 – 1</td>
<td>.190</td>
<td>1 (19%)</td>
<td>.392</td>
</tr>
<tr>
<td>Market downturn</td>
<td>753</td>
<td>0 – 1</td>
<td>.575</td>
<td>1 (29%)</td>
<td>.495</td>
</tr>
<tr>
<td>Profit down last 2 yrs</td>
<td>753</td>
<td>0 – 1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Certain variables from the survey were considered but discarded because the usable detail was masked in the final presentation of the responses. For example, zip code data was consolidated into regions and the location was masked as simply “urban” or “non-urban”. Another interesting but unused question asked owners if they planned to stay in the region or leave upon retirement but answers to this question were neither included by the N.F.I.B. in the final survey write up nor made available upon request.

**Data Analysis.** We used logistic regression to determine a model which best predicts the intention to retire. Previous data used was a part of a previously published survey of the retirements of business owners in the U.S. The resulting model identifies those variables which influence intention to retire as well as identifying the variables which have little or no effect on intention. Since the dependent variable, the intention to retire, is a binary variable, the hypotheses were tested using binary logistic regression. Binary logistic regression is a preferred methodology by researchers of social sciences when the dependent variable is dichotomous and the variables are a mix of continuous and categorical (Vardhan & Biju, 2012). Binary logistic regression estimates the probability of an event happening and estimates the variables that influence or help predict the dependent variable. In the binary logistic regression, the independent variables were treated as follows. We test three models: one includes only theory of planned behavior variables (subjective), the second model adds objective variables to the subjective variables, and the third model strips the subjective variables away, leaving only objective variables.

Table 2 shows the results of the binary logistic regression models. The results of binary logit regression show that models 1 and 2 outperform model 3. Model 2 edges out model 1 slightly in overall model fit (Chi square and R square) and the percent of correct predictions. The Nagelkerke-R2 reflects the amount of variation in the intention to retire. In model 1, using subjective variables accounts for 74.2 percent of variation in intention to retire, in model 2 the subjective plus the objective variables accounted for 75.9 percent of the variance of intention to retire, and in model 3 using only the objective variables accounts for only 4.5 percent of the variance. The results are significant at the .01 level. With model 2, there was a small gain in but there was a significant drop in model performance when the subjective variables were removed, in model 3.

Table 2. Results of binary logistic regression on dependent variable of intention to retire.

<table>
<thead>
<tr>
<th>N=753</th>
<th>Model 1: subjective only</th>
<th>Coeff.</th>
<th>Wald</th>
<th>sig</th>
<th>Model 2: subjective + objective</th>
<th>Coeff.</th>
<th>Wald</th>
<th>sig</th>
<th>Model 3: objective only</th>
<th>Coeff.</th>
<th>Wald</th>
<th>sig</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subjective: social norm</strong></td>
<td></td>
<td></td>
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<tr>
<td>Cohort variables:</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>good warrior (born 1902-28)</td>
<td>0.28</td>
<td>0.19</td>
<td>0.66</td>
<td>0.24</td>
<td>0.14</td>
<td>0.71</td>
<td></td>
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<tr>
<td>lucky few (born 1929-45)</td>
<td>-0.18</td>
<td>0.224</td>
<td>0.65</td>
<td>-0.38</td>
<td>0.98</td>
<td>0.32</td>
<td></td>
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</tr>
<tr>
<td>boomer (born 1946-64)</td>
<td>-0.88</td>
<td>7.21</td>
<td>0.01</td>
<td>-0.95</td>
<td>8.09</td>
<td>0.00</td>
<td></td>
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<tr>
<td>Gen X (born after 1964)</td>
<td>11.03</td>
<td>0.12</td>
<td></td>
<td>10.75</td>
<td>0.013</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Other subjective variables:</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>use age heuristic</td>
<td>21.54</td>
<td>0.00</td>
<td>0.99</td>
<td>21.59</td>
<td>0.00</td>
<td>0.99</td>
<td></td>
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</tr>
<tr>
<td>Owner has thought about retirement</td>
<td>-0.48</td>
<td>3.67</td>
<td>0.06</td>
<td>-0.47</td>
<td>3.61</td>
<td>0.08</td>
<td>0.02</td>
<td>0.01</td>
<td>0.92</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subjective: Desirability, perceived control</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>pension is in place</td>
<td>-213</td>
<td>0.58</td>
<td>0.44</td>
<td>0.15</td>
<td>0.30</td>
<td>0.59</td>
<td>0.20</td>
<td>1.68</td>
<td>0.20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>adequate retirement savings</td>
<td>0.26</td>
<td>0.78</td>
<td>0.38</td>
<td>0.19</td>
<td>0.37</td>
<td>0.55</td>
<td>-0.43</td>
<td>4.25</td>
<td>0.04</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>will the owner will likely sell</td>
<td>0.94</td>
<td>0.105</td>
<td>0.76</td>
<td>-0.08</td>
<td>0.07</td>
<td>0.79</td>
<td>-0.23</td>
<td>1.83</td>
<td>0.18</td>
<td></td>
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</tr>
<tr>
<td>will the owner phase out</td>
<td>20.98</td>
<td>0.00</td>
<td>0.99</td>
<td>21.07</td>
<td>0.00</td>
<td>0.99</td>
<td></td>
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<td></td>
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<tr>
<td><strong>Objective variables:</strong></td>
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<td></td>
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</tr>
<tr>
<td>Barriers to exit high</td>
<td>0.039</td>
<td>0.022</td>
<td>0.88</td>
<td>0.21</td>
<td>1.80</td>
<td>0.18</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>sales down last 2 years</td>
<td>0.39</td>
<td>2.27</td>
<td>0.13</td>
<td>0.13</td>
<td>0.70</td>
<td>0.40</td>
<td></td>
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</tr>
<tr>
<td>Affected by stock market</td>
<td>-0.31</td>
<td>0.80</td>
<td>0.37</td>
<td>-0.48</td>
<td>5.78</td>
<td>0.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># years owned &gt;= 20 years</td>
<td>0.01</td>
<td>0.00</td>
<td>0.97</td>
<td>0.41</td>
<td>6.86</td>
<td>0.01</td>
<td></td>
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<tr>
<td><strong>Model performance:</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Constant</td>
<td>41.94</td>
<td>0.00</td>
<td>0.99</td>
<td>42.10</td>
<td>0.00</td>
<td>0.99</td>
<td>0.29</td>
<td>0.83</td>
<td>0.36</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Nagelkerke R-squared</td>
<td>74.2%</td>
<td>75%</td>
<td></td>
<td>5.6%</td>
<td></td>
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<tr>
<td>% correct predictions</td>
<td>88%</td>
<td>89%</td>
<td></td>
<td>60%</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

**Bold** figures indicate Wald (t-stat) of <.05 and indicate the parameter’s usefulness in the model.
We show support for hypotheses 1 and 2, but not 3. In models 1 and 2, the strongest variable to predict the intention to retire was belonging to the baby boomer cohort. The magnitude of the variables for “using an age heuristic” and “planning to phase out” show these variables to be influential in predicting whether an owner will state an intention to retire. In model 3, owning the business for more than 20 years was the most significant variable, followed by adequate retirement savings and not being influenced by the recent negative stock market performance.

**DISCUSSION AND IMPLICATIONS OF RESULTS**

The reasons for measuring the retirement of small business owners are compelling from both macro and micro perspectives. If we know how small business owners retire, then can we learn what impacts the timing of the retirement of a small business owner? The results of testing supported the theory of planned behavior in predicting the intention to exit, connecting subjective variables to intention. We contribute to the earlier findings of Headd (2003) and Leroy et al. (2008) with our study in that we explored whether the intention to retire was an informed, objective path and our results suggest that it was not. These responses reflect homogeneity in thinking about retirement. An entrepreneur may be socialized to think about exit but lack any real understanding about how to undertake exit. For example some owners intend to exit because they are getting older or have owned a business a long time, and not necessarily because they have planned or prepared for exit. Endrepreneurs may be exhibiting psychological attachment to the business, blocking the ability to objectively assess the intention to exit. We tentatively suggest that the exit intentions of the small entrepreneur may not be grounded in actions that demonstrate connections of financial, valuation or strategic concepts to the intention to retire.

The macroeconomic implications of small business exit include effects to “pay as you go” pension plans such as Social Security, as well as microeconomic impacts to retirement planning and prospects for owners and their employees. As they approach retirement, endrepreneurs may not be so different than anyone else who is not prepared and perhaps avoids planning for the latter phases of their lives. The influence of heuristics and subjective norms suggest adherence by endrepreneurs to the traditional retirement model of wage and salaried workers. The valuation field tells us that objective measures such as profitability and barriers to exit should be significant predictors of the intention to exit and yet in our testing they were not. This study suggests that there might be weakness bordering on financial illiteracy in understanding the financial concepts involved with planning and executing an owner’s exit from the business.

In suggesting future opportunities for selected audiences it appears that the work of understanding the endrepreneur is just beginning. These results are presented with caution as the outcomes deserve closer inspection using data that specifically measures these connections. Though worrisome in terms of predicting wellbeing in retirement, the results provide opportunities for endrepreneurs themselves as well as researchers, business advisors, and teachers.

Endrepreneurship is an area that lends itself well to collaboration by researchers, educators and practitioners (DeTienne. 2008). Results suggest collaborative opportunities for local and regional economic development efforts that support business retention activities, including discussions and early interventions by accountants, lawyers, bankers and business brokers with the businesses in their areas. In all 50 states there are advisors that are funded with state and federal monies – the S.B.I. with its university connections, the Service Corp of Retired Executives (S.C.O.R.E.) and the S.B.A. are groups that provide counseling to endrepreneurs usually on an ad hoc basis and typically in the realm of business start-up and continuing operations. If these groups had access to a better understanding as to what is behind an endrepreneur’s retirement intentions, it would provide another touch point in the business lifecycle.
Although exit is a personal decision and is the responsibility of the entrepreneur, stakeholders include local economies, employees, suppliers, and customers. The story of entrepreneurial retirement may be quite sobering, and future research will direct these audiences to consider that there are cognitive blind spots concerning entrepreneurial exit (Leroy et al., 2008). Researchers can take the lead in informing a national discussion on what the entrepreneur means and therefore what actions they take, when they state an intention to exit to retirement. Those who study and teach about entrepreneurship need to consider that they are focusing on only half of the story. The front loaded focus on entrepreneurship should be balanced with the understanding that exit comes throughout the life of the company in the form of decisions that lead or do not lead to options for exit. Without a coherent theory and lacking a strong conceptual approach of how owners approach the exit from their business, researchers, academics and policy makers may have helped to create entrepreneurs who know just enough to be dangerous, focusing in the ‘now’ and not the ‘later.’ Future research would include investigating whether the answer of ‘never retire’ by small entrepreneurs has any basis in theories of work and leisure, in business exit and valuation, in economic development, or in behavioral economics in other industrialized countries. Not all entrepreneurs are the same and interesting differences in retirement approaches may be tucked away in such differentiators as the age that the owner entered business, and the consideration of dual earning couples, where the significant other is not employed by the same company. In this study, only U.S. companies were considered, and family business versus nonfamily business was not delineated. There would be value in comparing best practices of data collection across countries where the family business is much more prevalent than in the U.S. Family business issues of exit relate directly to succession planning, sometimes involving three or more generations.

Certainly in owning a company over the course of one or more business cycles an entrepreneur will deviate from both strategic plans and intentions. Hmieleski and Corbett (2006) suggest that improvisation, one of the ways that entrepreneurs act depending on the novelty of the situation and resource constraints, can extend to entrepreneurship. Longitudinal or case-based qualitative data may shed light on the path from intention to action. Other research would include a survey of best practices of data collection about small business owners in other industrialized countries.

Researchers may even need to do some work in order to get the field to the starting line, such as inquiries into the meaning of exit to an entrepreneur. One future research direction is to measure how much of the exit decision is influenced by the identity one derives from being an entrepreneur. Entrepreneurial motivation may play a role in exit, and research that considers the roles on exit behaviors that is played by the pull into entrepreneurship of a good business idea, or the push into entrepreneurship by the loss of another job, may be more relevant as people become entrepreneurs in economic downturns. Gender was not considered in our study. In the N.F.I.B. survey, ownership was 82% male and 12% female; it would be interesting and useful to understand whether there are differences in retirement intentions between genders.

**LIMITATIONS TO THE STUDY**

As with previous studies (e.g., Leroy et al., 2008) our research confirmed that Ajzen’s theory of planned behavior is a factor in entrepreneurship, in this case, the intention to retire. With our results we extend previous research and tentatively suggest that objective variables are not significant in the retirement intention. Our study is not designed to examine the workplace exit behaviors of wage and salary workers per se, but rather to compare entrepreneurs’ intention to retire against the normative yardsticks that we find in wage and salaried workers, whose retirement does not involve a company they own. This is also not a comparative analysis of small companies with large companies and as such no “larger small” companies (employees greater than 249) were included in the study. While this data did not suffer from survivor bias in an obvious way, the snapshot survey has the limitation of not measuring the outcomes of intentions to retire – individuals tend to be overly optimistic and perceive...
certain outcomes to be within their ability to control. If the N.F.I.B. could revisit this same group today, and then going forward at regular interval then we might know the outcome of the intention to retire. Our results are tentatively offered for consideration of discussion and research direction. We feel that we indeed found important talking points in the exploration of the intention to retire. We feel that the type of data and the goals of testing were well served using binary logistic regression. If the goal of testing were to prove the theory of planned behavior, we could consider the methods of previous researchers who used a more rigorous method such as structural equation modeling (e.g. Leroy et al., 2008). Porter (1976) found exit barriers based on location, and in a perfect world we could have explored whether there are differences in retirement intention according to location. In the N.F.I.B. survey however, certain locational data were masked, and other questions were not included in the final results, in order to protect the identity of companies.

Even with such limitations, the data set combined with the methodology provides interesting and informative results about entrepreneurship. The survey used the term ‘retirement’ and this may have been interpreted differently had the term ‘exit’ been used on its own. It may be the case that entrepreneurs attach neither real meaning nor meaningful actions to the intention to retire, deflecting the topic with an answer of “never retire.” Exploring the distinctions between ‘retirement’ and ‘exit’ is a future research direction.

CONCLUSION

This exploratory research using the N.F.I.B. survey data serves an important role in filling a research gap and suggesting future directions for research and discussion. The realities of exit should be made an integral part of starting a business. There is no excuse for cognitive blind spots – not knowing what we don’t know – about entrepreneurship. This research contributes to the gap of understanding how an entrepreneur forms the intention to retire. This research suggested that there might be similarities between workers and entrepreneurs facing retirement – both may not understand the decisions and skills needed to maximize the exit experience, yet the entrepreneur is not part of the national discussion. As a result they may retreat to the retirement structure of a world that is known to them but not available to them – that of the wage and salaried worker. The irony is that for the bulk of the business’s and owner’s life the entrepreneur largely sidesteps the confines of that world, instead facing the risks and reaping the rewards of business ownership – until confronted with exit.

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