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LETTER FROM THE EDITOR

We are extremely pleased to present the *Academy of Entrepreneurship Journal*, an official *journal* of the Academy of Entrepreneurship, Inc. The AOE is an affiliate of the Allied Academies, Inc., a non profit association of scholars whose purpose is to encourage and support the advancement and exchange of knowledge, understanding and teaching throughout the world. The *AEJ* is a principal vehicle for achieving the objectives of the organization. The editorial mission of this journal is to advance the knowledge, understanding, and teaching of entrepreneurship throughout the world. To that end, the journal publishes high quality, theoretical and empirical manuscripts, which advance the entrepreneurship discipline.

The manuscripts contained in this volume have been double blind refereed. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies.

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

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

JoAnn C. Carland
Western Carolina University

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MANUSCRIPTS

FRANCHISEE INTEREST IN THE RESULTS OF AN ACADEMIC STUDY OF FRANCHISOR-FRANCHISEE RELATIONS

Surinder Tikoo, State University of New York at New Patlz

ABSTRACT

This study uses a need-based perspective to explain franchisee interest in the results of a study of franchisor-franchisee relations conducted among franchisees under the aegis of a major university. Participating franchisees who wanted a summary of the results to be mailed to them perceived greater conflict in their relationship with the franchisor and valued the franchisor's expertise more than franchisees who did not evoke an interest to receive the results. The results suggest that academic research is sought by small businesses if it is relevant to their needs.

INTRODUCTION

Business scholars have long been interested in knowing whether academic research is valued and sought by practitioners (Kelly, 1987; Rynes, Bartunek & Daft, 2001; Ankers & Brennan, 2002; Cornelissen & Lock, 2002; Kelemen & Bansal, 2002). Many studies indicate that a significant gap exists between the creation of business knowledge by academics and its utilization by practitioners (Abrahamson, 1996; Hackney, 2002; Keleman & Bansal, 2002). These findings have motivated business scholars to study the causes and consequences of this gap and identify ways to bridge it (Greyser, 1978; Rynes, Bartunek & Daft, 2001; Keleman & Bansal, 2002).

Similar to research in other business disciplines, a key goal of academic research in entrepreneurship is to provide useful recommendations for practitioners. A key objective of academic and professional associations of entrepreneurship is to promote academic research that will benefit entrepreneurial practice. For example, the foremost objective of the Association for Small Business Entrepreneurship is "to provide a means for the exchange of information and guidance concerning teaching, research, extension, and other activities designed to aid small business." Recently, Davidsson (2002) discussed issues related to the relevance of academic entrepreneurship research for practitioners. Given this context, studies that examine whether academic research is sought by small-business owners are of interest to entrepreneurship academics.

The present paper uses a need-based perspective to explain franchisees' interest in the results of an academic study of franchisor-franchisee relations. Specifically, franchisees who participated in a study of franchisor-franchisee relations were given an option to have a summary of the results mailed to them. This paper explains how franchisees who expressed a desire to receive the results of the study differ from those who did not. First, the research hypotheses are developed and then the survey characteristics are described. Next, the results are presented and finally the implications of the study are discussed.

HYPOTHESIS

Human behavior is shaped by underlying needs. Unmet needs compel individuals to engage in behavior that will enable them to satisfy their needs. This need-based perspective can explain small business owners' interest in academic research. Following this perspective, a franchisee's interest in the results of a study on franchisor-franchisee relations is a function of its need for such information. This paper uses the level of conflict in the franchisor-franchisee relationship and the franchisee's valuation of the franchisor's expertise as proxies for a franchisee's need for the results of a study on franchisor-franchisee relations.

Conflict is manifest in any exchange relationship. It is defined as one party's perception that the other party is impeding its goal attainment (Gaski & Nevin, 1985). An operational perspective defines the extent of conflict in an exchange relationship as being a function of the frequency and intensity of disagreements between the exchange parties (Anderson & Narus, 1984). While some conflict is good for the relationship, beyond a certain level conflict can be harmful. When faced with conflict in its franchise relationship a franchisee is likely to try and end this conflict. Accordingly, a franchisee should be receptive to information that might enable it to better manage the conflict in its franchise relationship. By this token, the greater the level of conflict in the franchisor-franchisee relationship, the greater the franchisee's interest would be in the findings of a study on franchisor-franchisee relationships. In other words, franchisees who have relatively harmonious relations with the franchisor are less likely to be interested in the results of a study of franchisor-franchisee relations than franchisees whose franchise relationships are not as harmonious.

The lesser the franchisee's expertise in running the business, the greater the franchisee's interest would be in the findings of a study on franchising. Potential entrepreneurs choose the franchising option instead of starting an independent business because of the multiple advantages that franchising offers. One key advantage that franchisees get from joining a franchise system is the business expertise provided by the franchisor. The advantage of the franchisor's expertise is, however, not lasting (Oxenfeldt & Kelly, 1968-69). When franchisees are new they are likely to need the close supervision and training provided by the franchisor, but over time they gain the expertise and confidence to operate their business on their own. The greater the expertise and confidence that franchisees have at running the business of their own, the less likely they are to feel the need for the findings of a study on franchising.

To test the need-based perspective of franchisee interest in academic research the working hypotheses for this study are:

H1	Franchisees who request a summary of the results to be mailed to them perceive greater levels of conflict in their relationship with the franchisor than franchisees who do not request the results of the study.
H2	Franchisees who request a summary of the results to be mailed to them value the franchisor's expertise more than franchisees who do not request the results of the study.

DATA COLLECTION

SURVEY

Franchisees belonging to a well-known and fast growing franchise packaging, mailing, and business communications franchise system were surveyed. Surveying franchisees belonging to only one system made it possible to control for variables like industry and franchise type, and thereby enabled a more powerful test of the hypotheses.

A mailing list of the names, business addresses, and telephone numbers of franchisees was purchased from a franchise consulting organization. The survey questionnaires were mailed to 1,515 franchisees. To personalize the survey, the salutation in the survey letter contained the title (Mr./Ms.) and the franchisee's last name. In the questionnaire the name of the franchisor was specifically mentioned in a few places to ensure greater respondent involvement. The title (Mr./Ms.), the full name of the franchisee, and the address were typed on each envelope. The envelopes had postage stamps pasted on them, instead of being franked. After three weeks, a follow-up letter with a spare questionnaire was sent to nonrespondents.

In all, 436 responses were received. Eighty-eight survey packets were returned unopened because the business had closed or had moved. This is a common problem with commercial mailing lists. The total response rate for the effective mailings of 1,427 was 30.55%. The usable responses were 396 excluding refusals and incomplete surveys.

SURVEY TITLE PAGE AND COVER LETTER

The survey was in the form of a booklet, comprising legal size ivory colored paper folded lengthwise at the center. The booklet format of the questionnaire provides a professional appearance.

The cover page of the survey booklet had the following title: A National Study of Franchisee-Franchisor Business Relations. A statement indicating the purpose of the survey was placed at the middle of the cover page. This statement read, "This study is intended to help us develop a better understanding of franchisee-franchisor business relations. If you own multiple outlets, please respond with respect to your oldest unit. Your response will be kept confidential. Thank you for your help." The name and address of the source (business school and university) were given at the bottom of the cover page.

The survey was accompanied with a cover letter that described the nature of the survey and made an offer to share the results of the survey. The relevant portions of the cover letter are given below:

> *As you are aware managing a franchise business and planning effective business strategies is a challenging task. The marketing department at the University of xxxxxxx recognizes the difficult and sometimes complex nature of the franchise business and is trying to find ways that will help franchisees, such as yourself, successfully manage their businesses. To achieve this objective we need additional insights into the franchisees' business environment, especially their business relations with their franchisors.*
>
> *The only way we can gain a complete understanding of the franchise business is by getting inputs from different franchisees........We would appreciate you taking a few minutes to complete the enclosed questionnaire and then returning it in the enclosed postage prepaid envelope.*
>
> *We assure you of complete confidentiality. The questionnaire has identification numbers on it for mailing purposes only. The results of this study will be reported in the aggregate; specific company names will not be connected with individual responses. If you would like to receive a summary of results please write "summary of results requested" along with your name and address on the back of the return envelope.*

The title page of the survey and the accompanying cover letter clearly convey that the study is being conducted by an academic institution and that the purpose of the study is to seek a better understanding of franchisor-franchisee relations.

MEASURES

Two conflict measures were used. The first was a seven item conflict measure (CON) and was adapted from Gaski and Nevin (1985). The second was a summary measure (CONS) of the frequency and intensity of partner disagreements and was adapted from Anderson and Narus (1984).

The franchisee's valuation of the franchisor's expertise measure was adapted from Gaski's (1986) expert power scale. The items comprising the two multi-item scales had five response categories ranging from strongly agree to strongly disagree. The final scale score was the sum of the individual items divided by the number of items in the scale.

Factor analysis revealed that the multi-item measures of conflict measure (CON) and franchisor expertise (EXP) are unidimensional. The scales had very high reliability evidenced by coefficient alpha values of 0.90 and 0.91. The measurement items are listed in the Appendix.

RESULTS

Out of 396 respondents, 220 respondents requested a summary of the results to be mailed. Separate variance t-tests were conducted to determine whether franchisees who requested for a summary of results differ in their perceptions of the level of conflict characterizing their franchise relationship from franchisees who did not request for a summary of results. The results are given in Table 1.

Table 1: Comparison of the Two Groups of Franchisees

	Results Requested Franchisees			Results Not Requested Franchisees			Test Statistics	
	N	Mean	S.D.	N	Mean	S.D.	t-value	p
CON	219	18.61	6.97	171	17.15	6.55	2.108	.036
CONS	219	3.70	1.54	175	3.39	1.48	2.009	.045
EXP	217	16.62	4.68	171	15.30	5.02	2.656	.009

Table1 shows that franchisees who requested the results perceive significantly ($p < .05$) higher levels of conflict than franchisees who did not request the results across both the multi-item conflict measure (CON) and the summary conflict measure (CONS). Accordingly, H1 is supported. The two groups of franchisees also significantly differ with respect to their valuation of the franchisor's expertise ($p < .01$). This result provides support for H2.

DISCUSSION

Small businesses are an important driver of the American economy and account for a significant percentage of the total workforce. Typically, these businesses do not have the same resources as larger established enterprises and therefore their failure rate is high. Accordingly, there is a need for research that can help small business owners manage their business effectively. However, like in other business disciplines, academic research in entrepreneurship has had a tendency of not being appealing to practitioners (Ireland & Van Auken, 1987).

In this study, we found that franchisees who showed an interest in the results of an academic study on franchise relations perceived greater conflict in their relationship with the franchisor and valued the franchisor's expertise more than franchisees who did not show any interest. This result suggests that franchisees are likely to be interested in academic research if it addresses problems that they face in running their businesses. Accordingly, for small business research to be sought by practitioners, researchers should identify and study the problems that small businesses face. Interaction sessions between academics and practitioners at the meetings of professional associations can facilitate the process by which academics can find out the problems of practitioners (Rynes, Bartunek & Daft, 2001). The Marketing Science Institute, an organization that is jointly run by marketing academics and marketers from leading organizations, regularly announces a set of priority topics for academic research based on input from its corporate members. Such an approach can be adopted by entrepreneurship associations.

This study assumed that the higher the degree of conflict in the franchise relationship, the greater the need the franchisee has for looking at the findings of a study of franchise relations. While this assumption is compelling, a possible limitation of our study is that there might be other competing explanations of our empirical results. Another limitation is that the results are based on data collected from only one franchise system.

This study concludes that entrepreneurs will be interested in academic research if it addresses the problems that they are facing. Future research needs to investigate whether the findings of academic research, that focuses on topics of interest to entrepreneurs, are found useful by entrepreneurs.

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APPENDIX
Measurement Items

Multi-Item Conflict Measure (CON)

1. Sometimes our franchisor prevents us from doing what we want to do.
2. Our franchisor’s policies reduce our profits.
3. Our franchisor makes it difficult to do our job
4. Our franchisor has been very fair to us.
5. We disagree with many of the things that our franchisor does.
6. Our franchisor doesn’t seem to have our franchise’s best interests at heart.
7. Our franchisor’s policies make things difficult for us.

Summary Conflict Measure (CONS)

Considering both the frequency and intensity with which you disagree with your franchisor on business issues and policies, please check the one statement in the set of statements below that best overall captures your franchise business’s working relationship with XXXXX.

_______it is ideal and free of any conflict
_______it is smooth and comfortable one
_______it is polite one
_______it is workable
_______it is somewhat tense and strained
_______it is clearly tense and strained
_______it is “on the rocks”

Franchisor Expertise Measure

1. We respect the judgment of our franchisor’s personnel.
2. We get good advice from our franchisor
3. The people from our franchisor’s organization don’t know what they are doing.
4. Our franchisor is an expert in its field.
5. Since our franchisor is familiar with its business, we accept what our franchisor tells us.
6. Our franchisor has a lot of experience and usually knows best about managing franchise activities.

THE ENTREPRENEURIAL CONTINUUM: A NEW PRESCRIPTION FOR FUTURE STUDIES

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Mary Jo Vaughan, Dalton State College

ABSTRACT

In this paper, we present an extension of several studies that have attempted to provide definitions of types of small businesses (Jackson, Watts & Wright, 1993; Carland & Carland, 1982 and 1997; Jackson & Gaulden, 2001; and Carland, Carland & Ensley, 2001). While each of these previous studies had the purpose of improving entrepreneurial research, each left gaps that would continue to create future research dilemmas. This extension suggests that there are four broad categories of small business owners—each of which exists along a continuum from differentiation to low-cost. The purpose of the categorical perspective is not to explore the characteristics of the entrepreneur, but rather to suggest a framework for study. While the model highlights small business strategies as the arguments of study, it does so with the belief that strategy selection will be driven by a personal focus of the individual. Specifically, the small business owner will have either an entrepreneurial differentiation focus, a mixed entrepreneurial focus (either differentiation/low-cost or low-cost/differentiation), or a low-cost entrepreneurial focus. This focus will drive their strategy choice.

INTRODUCTION

> *Attempts to differentiate entrepreneurs from small business owners or to categorize business owners in any fashion present an incomplete picture of the entrepreneur. A full portrait must recognize that entrepreneurship is a continuum and new words may be required to help researchers differentiate individuals under study along that continuum (Carland, Carland & Ensley, 2001, p. 52).*

In spite of the effort of numerous researchers in the field of entrepreneurship there remains an absence of a consensus of what the term means. In fact, the state of thinking on the entrepreneur, in general, remains "up-in-the-air". No theoretical consensus has been developed. We all say we will know one when we see it. We know, in fact, that we have seen them. But, the eyewitness accounts vary significantly dependent largely on the point of view of the observer. This lack of a universally agreed upon definition and subsequent framework of study has gained considerable attention since the early 80s (Carland, Hoy, Boulton & Carland, 1984; Wortman, 1987; MacMillan & Katz, 1992; Herron, 1992; Jackson, Gaulden & Gaster, 2001; and Carland, Carland & Ensley, 2001).

Even a limited review of the literature over the past thirty years will reveal that part of the problem lies in operationalizing "Entrepreneurship" consistently across individuals. This remains bitterly obvious from a review of special entrepreneurial issues in *Journal of Management, Entrepreneurship T&P, and Strategic Management Journal*. A deeper problem, however, exists in entrepreneurship data in general. A number of empirical studies and analytical models contribute to understanding the elements of entrepreneurship. For the most part, however, the extant research lacks empirical specifications for the full spectrum of this phenomenon. This prior research has another common attribute: the studies all lack evidence of the factors that drive entrepreneurial activity across all types of small businesses.

In a recent article, Carland, Carland and Ensley (2001) attacked the persistent problem of unfocused research in the field of entrepreneurship. As many have stated before them, inconsistencies in measures still represents one of the greatest limitations of the field (Herron, 1992; MacMillan & Katz, 1992; Sandberg, 1986; Gartner, 1988). The Carland study provided promising possibilities for addressing this dilemma. These authors offered a viable solution to "explain differences in the entrepreneurial behavior of individuals" (p. 51). The research model advocated by the authors included a multiple scale approach to the enigma of entrepreneurial drive. These scales included the Carland Entrepreneurial Index (CEI) (Carland, Carland & Hoy, 1992), the Myers Briggs Type Indicator (Myers & Briggs, 1962; and Myers & McCaulley, 1985), the Jackson Personality Inventory and the Jackson Research Form (Jackson, 1974; Jackson, 1976). Each of these scales had previously received considerable testing as independent measures of entrepreneurial activity, but only limited exposure with multiple scale analysis (Carland et. al., 2001).

Carland, Carland and Ensley (2001) suggest testing of multiple scales had isolated entrepreneurial activity to a continuum of motivational drives. This idea of a continuum of entrepreneurship is not new. The idea was originally raised by Carland (1982). This position, unfortunately, runs counter to much of the research being done in the field where entrepreneurship was seen to exist as a discontinuous phenomenon (Dunkleberg & Cooper, 1982; and Vesper, 1980). Others agreed with a continuum if enough data points could be identified (Wright, 1987).

While assuming **a priori** that entrepreneurial activity (and therefore entrepreneurship) exists on a continuum, this study will attempt to fine-tune existing thought of this continuum through the introduction of a potential framework of entrepreneurial study. Considerable progress in moving toward a research model was made by Carland, Carland and Ensley (2001), but, as those researchers readily admitted, the "individuals near the midpoint of the continuum may be the hardest to describe of all entrepreneurs" (p. 52). With this in mind, at the heart of our model will be refinement of this mid-point entrepreneurial group. To accomplish this, the authors will draw direct relationships between strategies available to small business owners; personal motivations or focus of small business owners toward action; and demonstration of how the franchising system can serve as a rich source of research data to isolate entrepreneurial activity and individual characteristics.

PRIOR RESEARCH—LACK OF CONSENSUS

Considerable attention has been given to the search for the "entrepreneur" since Peter Kilby (1971) related the quest to that of hunting the heffalump. Most would contend that we are no closer now than we were more than 30 years ago and that Kilby's analogy still rings true:

> *He has been hunted by many individuals using various ingenious trapping devices, but no one so far has succeeded in capturing him. All who claim to have caught sight of him report that he is enormous, but they disagree on his particularities. Not having explored his current habitat with sufficient care, some hunters have used as bait their own favorite dishes and have then tried to persuade people that what they caught was a Heffalump. However, very few are convinced, and the search goes on. (p.1)*

It is indeed appropriate to review some of those "ingenious trapping devices" to provide a better understanding of why none have been successful.

There are several characteristics of the entrepreneur that have received a disproportionate amount of attention in past research. Several of these aspects of the "E" (although not totally accepted in all circles of academia) have significant implications for this paper. Characteristics that have been supported in prior research include: innovation, risk taking, need for achievement, educational levels, succession, "serial" entrepreneurs, and motivational drive. In addition, small business strategies, franchising, fragmented industries and firm life cycle play a part in the creation of the proposed model. It is not, however, the purpose of this paper to re-visit all of the debate of entrepreneurial research (for a thorough overview see Carland, Carland & Ensley, 2001). Instead, a brief discussion of a few of the major components is provided.

SMALL BUSINESS STRATEGIES

The first step in providing a framework for small business strategy analysis is to establish those strategic groups that follow similar strategies in administering their businesses. Even though numerous studies have attempted to specify categories of small business operations (see Hornaday, 1990 or Carland, Hoy, Boulton, & Carland, 1984 for a more complete listing), most have been criticized for either pursuing only two types instead of three, or for dealing exclusively with individual traits (Hornaday, 1990). This study will use as its foundation the well-accepted typology made famous by Michael Porter (1980).

In his typology, Porter established generic strategies available to small firms by addressing the options available in fragmented industries. According to Porter, fragmented industries are those "in which no firm has a significant market share and can strongly influence the industry outcome" (p. 191) and "the competitive structure … requires focus or specialization" (p. 211). Because small business firms do not have the ability to compete industry-wide, they are obligated to compete with this "focus" strategy in fragmented industries (Wright, 1987). To take Porter's logic one step further, small firms could either compete by pursuing a low cost focus strategy—"bare-bones/no frills"—or by differentiation focus—"specialization"—by increasing value, product type, customer type, or geographic area. These small firms should not, according to Porter, combine strategies or they would become "stuck in the middle."

While Porter's initial description does provide some explanation of possible small business strategies, it still does not remove the confusion that surrounds these choices. It was probably additional comments Porter made that actually (but, maybe unbeknown to him) best articulated one of the small business choices. Porter suggested that there were only two means of pursuing the low-cost focus strategy. First, the firm pursuing this strategy would enter the market with the lowest possible initial investment. Second, that firm would have to keep operating costs as low as possible.

Consider the firms that enter the market with the lowest possible initial investment. Many researchers have proposed that the single main reason for small business failure is undercapitalization. The majority of these firms are entering undercapitalized because of the difficulty of new start-ups in getting initial commercial financing. Most funding is provided by personal funds, credit cards, relatives, or the use of personal assets as collateral. When any of these means are used the borrower is likely to opt for the minimum to enter rather than an appropriate amount.

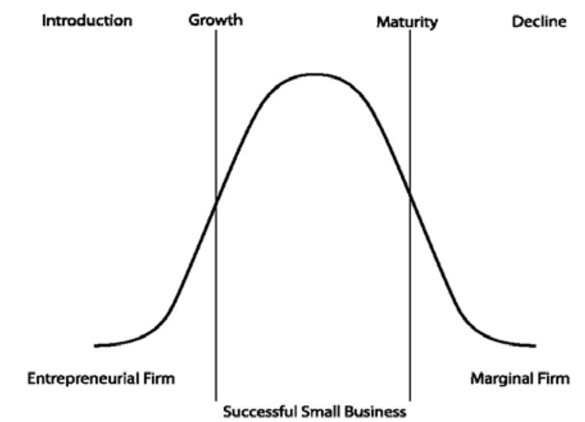
In addition, these firms are most likely to have an owner/manager at the helm. This owner will typically wear all of the "hats" within the firm—the accountant, the marketer, the human resource director, the operations chief to name a few. This owner will also be putting in excessive hours of work as well as using family members as a labor pool. This same owner is likely to have chosen a less than ideal location and purchased used and maybe close to obsolete equipment. All of these activities were selected not because they were the optimum choice, but rather to keep operating costs as low as possible.

PREVIOUS RESEARCH OF SMALL BUSINESS TYPOLOGY

As mentioned previously, the proposed typology for small business is an extension of several earlier studies (Jackson et al, 1993; Carland & Carland, 1997; Carland, Carland & Ensley, 2001; and Jackson & Gaulden, 2001). An overview of these studies will provide the rationale for this typology.

Jackson et al (1993) proposed three types of small business firms—marginal small businesses, successful small businesses, and entrepreneurial small businesses (see Figure 1). These authors also suggested two other pertinent issues for this current study. The authors defined three types of strategies that could be pursued by small businesses: marginal firms pursued a low-cost focus strategy; successful small businesses chose a combination focus strategy; and, the entrepreneurial firm pursued a differentiation focus strategy. It was also proposed that franchising activity occurred only at the successful and marginal firm level. These three types of small businesses were described by Jackson et al as follows:

Figure 1: Entrepreneur Types and the Product Life Cycle
Source: Jackson, Watts & Wright, 1993



Marginal Firms

Marginal firms enter the market with limited resources, and because of these low start-up costs, evaluation of risk using traditional measurement may be conflicting. In one respect, there is little to lose since little was invested. However, since (1) funds used to start the business likely represent life savings or loans from friends or relatives; and, (2) limited options for employment exist if the business fails, the marginal firm owner will have high financial and psychological risk.

Identification of their place within the franchising system is easy to pinpoint. Because of the low initial capital available, firms in this group will be forced to pursue franchise ventures that provide very limited potential. These opportunities will usually be for less expensive choices.

These firms will also choose industries that are late in their life cycles. The reason behind this is very simple—usually these are going to be the least expensive and require less skill.

Successful Small Businesses

Because this group is concerned with consistent and continuous returns of their investments, the successful small business owner will shun high risk ventures. This would appear to be logical—risk suggests variability. However, because this group has a better chance of commercial financing and they are better prepared ability wise to pursue other avenues of employment, risk is typically lower.

In the franchise system they will usually pursue higher cost (thus higher potential returns) ventures. Many of these will draw upon these individuals' pre-existing expertise.

Entrepreneurial Firms

In relation to risk, this group will demonstrate little difference from successful small businesses. Initial investments would often be as large or larger for this group, but also composed of funds from outside sources (commercial lenders as well as venture capitalists). Psychological risks might also be smaller since this group should be composed of owners with marketable skills.

Entrepreneurial firms will have a propensity to pursue innovation and elect often to enter an emerging industry. This group will also by the nature of the venture be less concerned about costs. See Figure 1 for a graphic representation of this relationship.

In the Carland and Carland (1997) paper, three distinct definitions for entrepreneurship were provided in terms of "dreams" and what motivates an individual small business owner (See Figure 2). Table 1 sums up the findings of their study.

Figure 2: Entrepreneurs Defined
Source: Carland and Carland, 1997

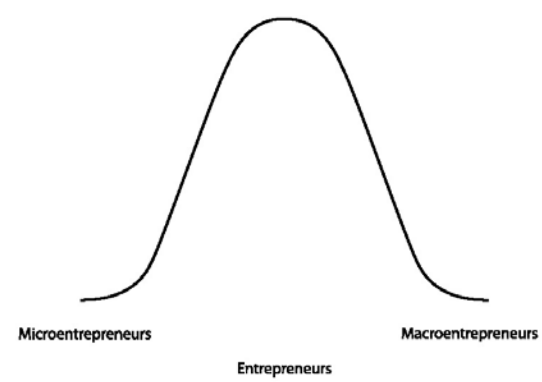
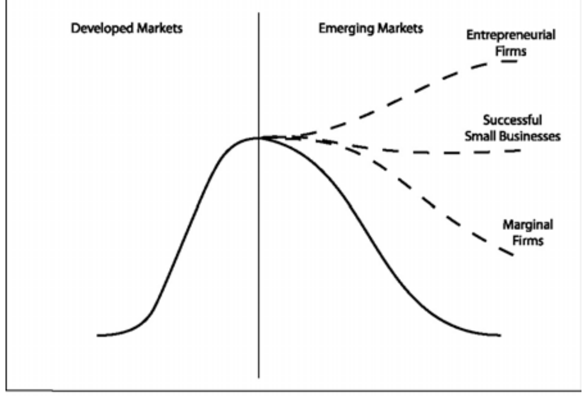


Table 1: Entrepreneurial Dreams as a Paradigm

Classification	Dreams	Behavior	Outcomes	Consistency
Macroentrepreneur	Dreams of Revolutionary Change	Innovative	New markets, Services, products and industries	Never stops Striving for Dominance
Entrepreneur	Dreams of personal success, wealth and accolades	Ingenious	Enhanced markets, services, products and industries	Shifts interest at perceived success level
Microentrepreneur	Dreams of personal freedom	Traditional	Small, stable, slowly changing family businesses	Shifts interest at perceived comfort level
Source: Carland and Carland, 1997				

Jackson and Gaulden (2001) highlight the importance of the life cycle when considering a merging of these two typologies. The marginal firm (microentrepreneur) will be found most commonly at the late maturity or decline phase of the life cycle. The successful small business will be found at the late growth or maturity phase of the life cycle. Finally, the entrepreneur (macroentrepreneur) will be that individual firm found at the introduction phase of the life cycle (Figure 3).

Figure 3: Entrepreneur Types in Emerging Markets
Source: Jackson and Gaulden 2001



SERIAL ENTREPRENEURS

While considerable research has been focused on the individual entrepreneur, little attention has been applied to the "multiple" entrepreneur. In one of the first studies of this special individual, Carland, Carland and Stewart (2000) concluded that "…serial entrepreneurs appear to embody an entrepreneurial drive and tenacity that holds promise for a major contribution to a theory of the entrepreneur" (p. 2).

The results of the Carland et al (2000) study support many of the concepts held on "entrepreneurs":

> *Overall, we believe that the results of this study support a belief that serial entrepreneurs may be characterized by greater preferences for innovation, higher levels of risk-taking propensity than are [single venture] entrepreneurs.* (P. 15)

Their study clearly provides a reasonable explanation of much of the inconsistencies readers have found with entrepreneurship research in general—not attempting to separate the study sample based upon the nature of the ventures.

Franchising, that is the franchise system in total, provides a rich source of possibilities for researchers to avoid this pitfall. In short, the franchise system has the original founder (the franchisor), those individuals that have pursued a single franchise venture at either the high-end or the low-end level (the franchisee), and that individual that has engaged in multiple franchises (the serial franchisee).

It has been only in the last few years that we are seeing a greater focus on this last group—the serial franchisee. As Kaufman (1996) suggests, "*…the metaphor used by most franchising researchers ... has been the single-unit franchisee. It takes little by way of casual empirical observation to belie that assumption. Single-unit franchisees are the exception, not the rule*" (p. 5). This is clearly supported by data from the International Franchise Association (IFA) which holds that about 80% of franchisees are single-unit franchisees but that they operate less than half of franchised units (Justis & Judd, 2003).

PROPOSED MODEL FOR ENTREPRENEURIAL STUDY

Careful reflection on the previously discussed typologies indicates a partial classification of possible entrepreneurial types. It is obvious that what drives an individual to open multiple ventures (Carland, Carland & Stewart, 2000) is different than a single attempt at venturing when we look at the franchising system. It is just as transparent (especially when reflecting on prior research) that no three or even four points can capture the complex nature of entrepreneurship. This second concept seems to represent the same type of dilemma encountered when classifying firms by business unit level strategies (Wright, 1987).

It is proposed first that entrepreneurship exists on a continuum--each entrepreneur is unique in his/her own right (Carland & Carland, 1982; Carland, Carland & Ensley, 2001). The same conclusion can also be drawn regarding business unit level strategies. However, if, as researchers, we use this excuse to avoid the study of the entrepreneur, we will find ourselves again focused on the "dance and not the dancers" (Carland, Carland & Ensley, 2001).

In an attempt to continue the quest for the "Heffalump" (Jackson, Gaulden & Gaster, 2001; and, Carland et al, 2001), a framework of small business types is proposed. As was the case for studying business unit level strategies, to understand strategy in general, ends of the continuum must be explored. This will be the beginning point for explanation of the proposed model (See Figure 4).

As can be gleaned from Figure 4 and Figure 5, three main areas of strategic choice are available for the entrepreneur who is operating in a fragmented industry. These choices extend Porter's (1980) contention that firms in fragmented industries compete with a focus strategy, either low cost or differentiation, by including a mixed entrepreneurial focus.

Figure 4: Small Business Types–A Differentiation/Low-Cost Continuum

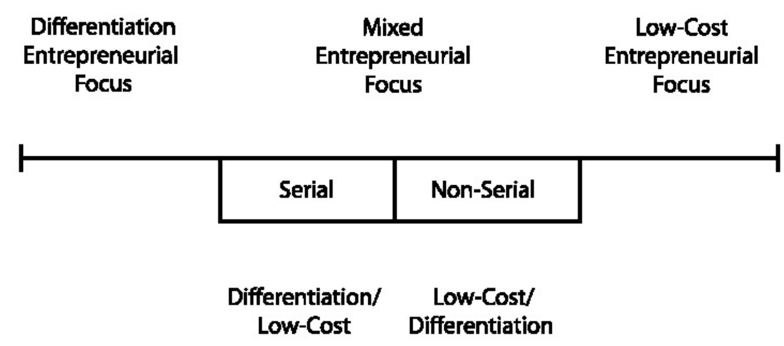
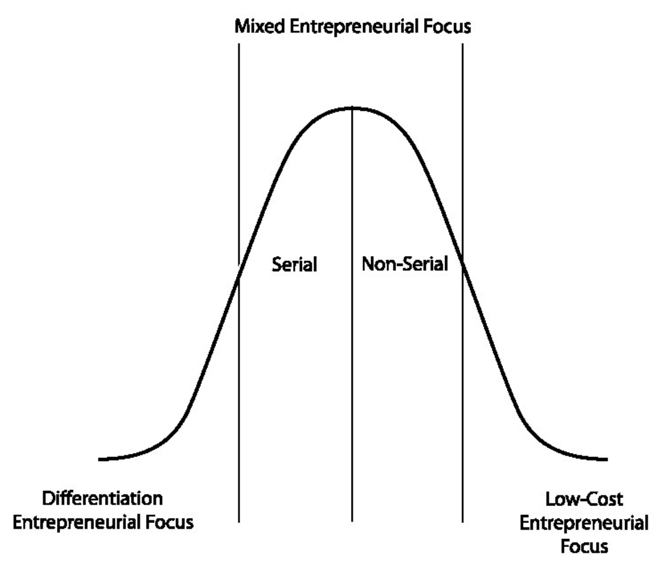


Figure 5: Small Business Types



Low-Cost Entrepreneurial Focus

The small business owner might elect (usually out of necessity) to pursue a low-cost focus strategy. In most cases, this decision is caused by several possible reasons: the owner has limited capital; the owner has limited skills or employment choices; or the owner is in the business due to succession. In all of these cases, the internal drive of the owner is moderated by the marginal possibilities that exist using this strategy, as well as, possibly the lack of managerial/educational experience. It could be that this group is most responsible for the high percentage of business failures that are often reported in the small business literature.

When electing (or being forced to choose) this strategy, the entrepreneur is almost always an owner/manager. As described under "marginal firm" previously, this individual may have growth drive but is limited by the constraints of capital and the marginal opportunities of the industry they have selected.

Differentiation Entrepreneurial Focus

The entrepreneur that has a drive for discontinuous growth as well as the desire for creativity will select a differentiation entrepreneurial focus. The choice is more elective than with low-cost. This individual as described in Jackson et al (1993) has many more options as well as the freedom to express his/her creativity. These individuals are typically responsible for new ideas, products, or delivery systems.

Mixed Entrepreneurial Focus

The final group and the true major addition to existing frameworks is the clarification of the "mid-point" area of entrepreneurial activity. As acknowledged by Carland, Carland and Stewart (2001), "individuals near the midpoint of the continuum, may be the hardest to describe of all entrepreneurs" (p. 52). This mixed entrepreneurial focus completes the continuum. Two choices, impacted by differing drives, can be found within this group—the differentiation/low-cost entrepreneurial focus and the low-cost/differentiation entrepreneurial focus. The characteristics of these two groups will lean toward the dominant end of the continuum for that group—differentiation/low-cost toward differentiation, low-cost/differentiation toward low-cost. The personal drive of this individual will also align with the dominant ends of the continuum.

A major avenue for expression of his/her entrepreneurial spirit, the differentiation/low-cost entrepreneur will be more interested in multiple ventures—a serial entrepreneur. The low-cost/differentiation entrepreneur will typically be content with a single venture and the consistency of returns this approach will afford—a non-serial entrepreneur.

In summary, the low-cost entrepreneurial focus is on maintenance of existence; while the differentiation entrepreneurial focus is concerned with discontinuous growth, innovation and the discovery of voids in the market. The mixed entrepreneurial focus is represented by two groups on this continuum—differentiation/low-cost and low-cost/differentiation entrepreneurial focus. The first more attuned to characteristics of the traditional entrepreneur and the latter toward consistency of high returns.

A RESEARCH PLATFORM—THE FRANCHISING SYSTEM

Identifying the possible types of entrepreneurs sets the stage for the final purpose of this paper—specifying a research framework that will allow for consistent testing of research hypotheses. As many researchers have reported, the approach to past research has lacked the consistency to generalize results (Herron, 1992; MacMillan & Katz, 1992; Gartner, 1988; and Carland, Carland & Ensley, 2001 to name only a few).

The platform for future testing recommended using established instruments such as the Carland Entrepreneurial Index, the Myers Briggs Type Indicator, and the Jackson Personality Inventory (Carland et al, 2001) is the franchising system. This economic system includes all of the types of entrepreneurs described above while at the same time allowing clear stratification of the types.

Franchising is one of the largest and constantly growing segments of the U.S. as well as world economies. In the United States there are currently around 700,000 franchised businesses with another approximately 150,000 more overseas bearing a U.S. logo. These firms generate in the neighborhood of $1 trillion dollars in retail sales or approximately 17 percent of Gross Domestic Product (Justis & Judd, 2003).

While some of these sales can obviously be contributed to "company-owned" operations, the vast majority is provided by small, privately owned operations. Considering the shear magnitude of these figures, it is surprising that minimal attention has been given to "who" are these owners, and how do they conduct business (Combs & Ketchen, 2003). Key facts from The *Profile of Franchising, Volume III* and Entrepreneur Magazine about the American franchise industry indicate the following general characteristics:

- ♦ The fast-food industry represents the largest group within the franchising system—27%
- ♦ About 75% of the franchise population have 10 or fewer company-owned units
- ♦ 88% of franchises charge an initial franchise fee of $40,000 or less
- ♦ Bakeries, fast-food, restaurants and retail food comprise 34% of the franchise population
- ♦ Around 38% of all franchisors have been in business for less than 12 years
- ♦ Five of the top ten franchise systems for 2003 are in retail fast-food. One is a retail/health service; one is a convenience outlet; one is a retail service; one is a motel chain; and one is a business and tax service.

(Source: Justis and Judd, 2003)

As these facts demonstrate, the franchise system is typically focused on firms in fragmented industries—industries whether franchised or independent where the vast majority of participants are classified as small businesses. Based upon this fact, the franchising industry represents a rich source of data to explore small businesses and those that own/operate individual units. Or stated succinctly by Knott (2003):

> *"What is particularly nice about franchises is that the establishments are the simplest form of organization. There is a single actor with perfect incentives (the owner-manager). Thus the context is stripped of the complexities of hierarchy and separated ownership and control" (p. 929).*

In addition, if one considers the fact that most franchising operations have evolved since the 1950s, the ability to isolate activity is concentrated. And, that the current trend in franchising allows for multi-unit, mini-chains ownership by single individuals (Bodipo-Memba & Lee, 1997; and, Kaufman, 1992) then the full spectrum of possible owners can be identified.

Comparison of Figure 5 and Figure 6 yields the following classification of entrepreneurial types within the franchise system.

The differentiation entrepreneurial focus will occur with the individual that first develops the franchisable concept. This individual has a dream that involves taking an idea and growing it to an epic scale. If unsuccessful with one concept, these individuals are likely to pursue other novel ideas whether they lead to a franchise or a single venture. They, like Ray Kroc, may very well sell their interest in an initial franchise (even at the height of its success) and begin development of an entirely new concept.

The low-cost entrepreneurial focus includes those individuals that have purchased lower-end franchises that allow for marginal returns at best. These franchises would probably include ventures such as cleaning services, lawn services, carpet cleaning, or supplemental add-on services that can be housed within an existing small business. These individuals will typically purchase only one such operation. Earnings have the potential to provide minimal income levels or help augment an existing salary for the owner/manager. The ventures usually can be characterized as requiring minimal skills or educational levels.

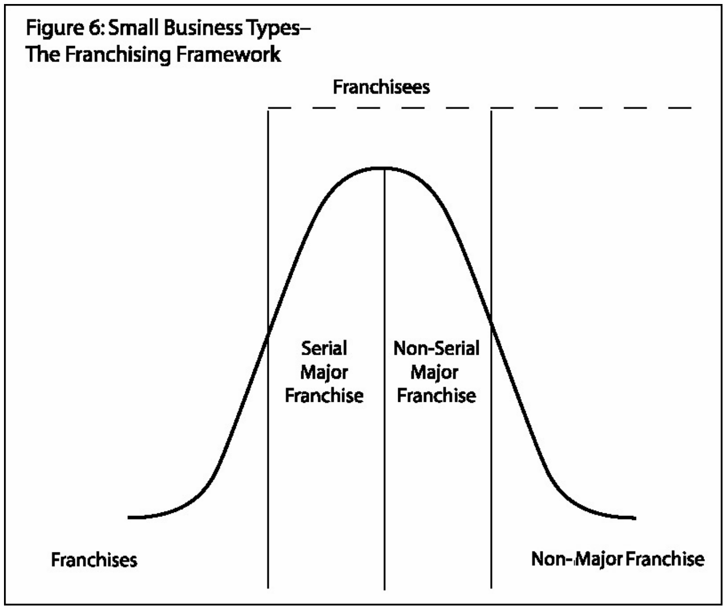


Figure 6: Small Business Types– The Franchising Framework

The mid-point group, the mixed entrepreneurial focus is represented by two possible groups. The first, differentiation/low-cost entrepreneurial focus will have an orientation toward the characteristics of both differentiation and low-cost with the dominant focus being differentiation. This group will pursue the higher-end franchise opportunities (i.e. hotels, fast-food, restaurants, gas stations etc.) and will likely be multi-unit owners (serial entrepreneurs) either in a single franchise system or with multiple franchise systems. This group will be concerned with growth through their multi-unit purchases and may be interested in affecting some influence in the franchise system they are engaged with.

The second member of the mixed entrepreneurial focus will be the low-cost/differentiation individual with a leaning toward the low-cost end of the continuum. Because this group will be interested in consistent returns, they are likely to pursue high-end franchise offerings but will usually be content with a single venture. The owner will usually be the manager of the venture.

CONCLUSION AND DISCUSSION

There have been numerous recent inquiries into the phenomenon of entrepreneurship. Unfortunately, most (while touting its importance) have ignored the cognitive nature of the individual (Keh, Foo & Lim, 2002), or the possibility of "dynamic capabilities" (Winter, 2003). Clearly, those that called for the focus of research to be on venture creation and not the individual should be pleased with recent research (Wortman, 1987; Gartner, 1988; Brush, Duhaime, Gartner, Stewart, Katz, Hitt, Alvarez, Meyer & Venkataraman, 2003). Is it important to consider family business? (Chua, Chrisman & Steiner, 2003), or early retirees? (Singh & DeNoble, 2003), or the differences in venture creation decision contexts? (Simon & Houghton, 2002). The answer is yes. But, to what detriment? With an integrated research model addressing both entrepreneurial drive and strategic orientation, we might be able to do both.

The purpose of this paper was not to rehash the old argument of whether all small business owners were entrepreneurs (Gartner, 1988; Carland, Hoy, Boulton & Carland, 1984). Rather, it is to provide a workable framework to advance the recommendation for consistency in research put forth by Carland, Carland & Ensley (2001). As those authors suggested, additional clarification of those entrepreneurs found in the midpoint of entrepreneurs needed to be provided. The framework put forth in this paper does just that—the serial versus non-serial mixed entrepreneurial focus. This extension thus identifies four distinct entrepreneurial types that fall on the continuum. Each of the four entrepreneurial types can be isolated for testing, thus greatly increasing the generalizability of research data. The franchising system provides such a research platform.

While the framework proposed in this paper does focus on small business strategies, it incorporates the concept that individual drive and personality are at the core of entrepreneurial decision making. As such, it provides an effective means of identifying the dancer and the dance floor.

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ENTREPRENEURIAL ACTIVITY AND TECHNOLOGICAL PROGRESS: A MATHEMATICAL MODEL

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ABSTRACT

The purpose of this paper is to examine one of the many channels of endogenous technological progress. Technology growth is usually the result of intentional and costly effort, and a significant amount of new innovation is driven by entrepreneurs who seek to introduce new products and new methods in order to earn profit. In this article, a mathematical model based on Schumpeterian theory and entrepreneurial activities is developed and examined.

INTRODUCTION

Most economic models assume that technological progress is an externality to some other form of economic activity such as investment or production. These models are convenient in that they generate permanent economic growth while maintaining an environment of perfect competition. They clash with the observed behavior of many entrepreneurs, however. Innovation and the application of new ideas are usually the result of intentional and costly effort. As (Schmookler's, 1966) classic study of innovation in several U.S. industries found that, invariably, inventions and discoveries were the result of profit-seeking behavior rather than independent intellectual inquiry. More recent research has confirmed Smookler's findings; see for example, (OECD, 1997; Thompson, 2001; and The World Bank, 2002).

Once it becomes accepted that innovation is not costless, the standard neo-classical perfect competition model must be modified to accurately depict the models of economic growth. Research, experimentation, analysis, planning, designing production equipment, and all the other activities related to the creation and application of new ideas that must somehow be paid for. When innovation has direct costs, technological progress becomes more like an investment that requires up-front costs in order to achieve expected future gains. Models that describe the process of innovation must therefore identify the incentives that induce people to incur the up-front costs of innovation. This makes models that assume perfect competition particularly awkward; when the costs of production exactly add up to the competitive price of a good, there is nothing left over to cover the up-front costs of research and development activities.

The most popular models of technological progress assume that innovation is driven by entrepreneurs who seek to introduce new products and new methods in order to earn a profit. These models drop the usual assumption of perfect competition and instead assume that innovators gain market power that permits them to charge prices above their marginal production costs. These types of models of innovation under imperfect competition are often referred to as Schumpeterian models, in honor of the twentieth century economist Joseph Schumpeter.

The purpose of this article is to develop a simple yet informative model of technological progress based on Schumpeterian theory and the natural activities of the entrepreneur. This article is organized as follows: section II presents a brief review of Schumpter's creative destruction hypothesis, section III discusses the importance of entrepreneurial activity in the creative destruction process, section IV develops the foundations and assumptions of the technology model, section V presents the mathematical model, and section VI draws conclusions and offers some remaining research questions on the topic.

SCHUMPETER'S CREATIVE DESTRUCTION HYPOTHESIS

In the early twentieth century, most mainstream economists focused on economic efficiency and resource allocation, but Joseph Schumpeter (Schumpeter ,1912; Schumpeter, 1934) stood out with his alternative viewpoints and his "anti-neoclassical" view of economic growth. Schumpeter has been classified as a radical economist for his description of the capitalist system as a dynamic system that continually generates change and technological progress. He viewed the capitalist system as one that does not reach a stable equilibrium; rather he saw it as an evolutionary process that never reverts to a stationary equilibrium. Schumpeter saw an ever-changing economy in which each innovation sets in motion activities that cause further innovations. Schumpeter's model was a truly dynamic one in that he described an equilibrium path that the economy follows over time, not the stable equilibrium described by the familiar supply and demand models that were in vogue when Schumpeter first described his concept of creative destruction early in the twentieth century.

Schumpeter described the capitalist economy as a "perennial gale of creative destruction" in which each firm sought to gain an advantage in the marketplace through innovation. He complained that "the problem that is usually being visualized is how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them" (1934, page 84). Each innovation, such as a more attractive design, a lowering of production costs, a new product, a new source of supply of inputs or raw materials, or improved management methods was pursued because it held the possibility of generating higher profit for the innovating firm. Such creative activity also destroyed the monopoly power that its competitors had gained by means of their earlier innovations.

Each innovator's gain is, therefore, only temporary because the creative innovation of its competitors will, sooner or later, destroy its hard-earned market power. This continual creation and destruction prevents permanent monopolies from developing, and in the process, society enjoys continuous technological progress. Creative destruction was, according to Schumpeter, the source of economic growth and the enormous increases in living standards that the world was experiencing in the early 1900s (Lewer and Van den Berg, 2004).

Schumpeter's idea of competition did not revolve around price competition; rather it was technological competition. Competition to develop new products and production processes served to create the temporary monopoly profits necessary to cover the up-front costs of innovation, but these profits would eventually be eliminated by the "creative destruction" of competing innovators. Everyone in society benefited from the technological progress; in fact, the power of compounding over time ensured that competition through innovation would raise human welfare much more than the traditional form of price competition within a perfectly competitive environment could ever do.

THE ROLE OF THE ENTREPRENEUR

Central to Schumpeter's process of creative destruction is the entrepreneur, the person who initiates the process of innovation. The entrepreneur is the one who recognizes and grasps the opportunities for introducing a new product, changing a firm's management organization, exploiting a new market, finding a new source of raw materials, cutting the costs of production, or motivating the labor force. Entrepreneurs are often more managers than inventors. They are the ones who see the economic potential of inventions. They need not themselves be the owners of the venture; they may simply manage for those who provide the funds for the enterprise. But they have the ideas, the ambition, and the organizational skills to bring projects to fruition (Lewer and Van den Berg, 2004). Schumpeter attached great importance to the social climate within which the entrepreneur had to operate. If the rate of technological progress of an economy depends on how aggressively entrepreneurs innovate, the incentives and barriers they face are critical to the process of economic growth. Among the critical institutions are society's attitude toward business success, the prestige of business activity, how well the education system prepared potential entrepreneurs, and how much freedom "mavericks" have to pursue their ambitions. Schumpeter referred to entrepreneurs as "social deviants" who act counter to the wishes of vested interests and often clash with tradition. The need for the entrepreneur to break with tradition can explain the apparent lack of entrepreneurs in some societies. Schumpeter pointed out that entrepreneurs are often immigrants and minority groups. Migrants are less attached to the traditions of society, less inhibited by how people see them, and, through natural selection, often more optimistic, more willing to take risks, and more willing to sacrifice current welfare for future gain. Hence, societies that tolerate people who break with tradition, think differently, and compete with vested interests will have higher levels of technological progress than societies that restrict economic and social freedoms (Lewer and Van den Berg, 2004).

Even though entrepreneurs featured prominently in Schumpeter's writing, he was not the first to elevate the entrepreneur to a position of importance in the economy. The early French economist, Richard Cantillon wrote in 1730 that producers in an economy consisted of two classes: hired people who received fixed wages and entrepreneurs with non-fixed, uncertain returns. Other French Physiocrats, as their school of thought has come to be known, such as François Quesnay also discussed entrepreneurs, as did the well-known French classical economics Jean-Baptiste Say. Even Adam Smith referred to "philosophers and men of speculation" who greatly increased "the quantity of science."

THE FOUNDATIONS OF THE SCHUMPETERIAN R&D MODEL

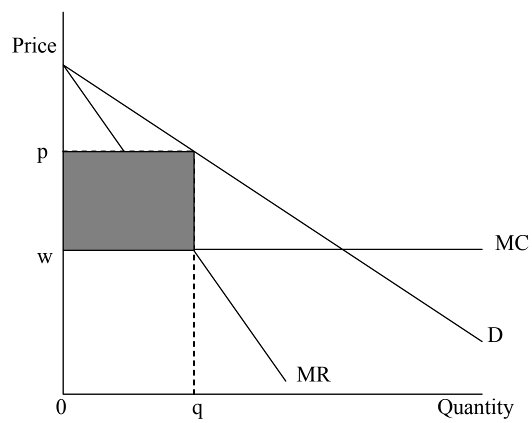
Romer (1990), Grossman and Helpman (1991), Aghion and Howitt (1992) are among those who have developed models of endogenous growth based on the assumption that R&D activities are carried out by profit-seeking entrepreneurs. There are subtle differences between the many models that have been developed, but most of them incorporate the following ideas:

1.	Innovations are the result of intentional application of costly resources to R&D activities to create new products, ideas, processes, techniques, etc.
2.	Profit-seeking innovators compete to employ the economy's scarce, and thus costly, resources in an attempt to generate innovations
3.	Innovation creates new products that are better, cheaper, more attractive, or in some other way superior to existing products, which permits innovators to charge more and earn profits in excess of the costs of production.
4.	Potential innovators make rational decisions, and they employ resources only when discounted expected future profits from innovation exceed the costs of the resources employed.
5.	Each new innovation gives innovators profits but reduces or eliminates earlier innovators' profits.

Schumpeter's emphasis on entrepreneurs and the incentive of profits is built into many of the recent "Schumpeterian" models of innovation. The models essentially show technological progress as an ongoing activity where individuals, firms, organizations, universities, or governments have an incentive to employ scarce resources in order to generate new knowledge, ideas, methods, forms of economic organization, and any other changes that increase the value of output derived from the economy's set of productive inputs. Clearly, investment in the creation of new knowledge should only be undertaken if the returns exceed the costs, just like any other form of investment.

Unlike a perfectly competitive firm, which faces a horizontal demand curve and takes the price for its product as given, an imperfectly competitive producer faces a downward-sloping demand curve, as in Figure 1. Suppose that the marginal cost of production is constant at w, in which case the marginal cost (MC) curve is a horizontal line at price w. The downward-sloping demand curve (D) implies that a producer can always sell more by lowering the price of its product. The profit-maximizing producer, producing up to the point where marginal revenue (MR) equals marginal cost, thus sets the price p and produces quantity q. The difference between the price p and the marginal cost w, (p-w), is defined as the markup . Profits are equal to the shaded rectangular area in Figure 1, which is equal to the quantity of products sold times the markup. Schumpeter pointed out that innovative activity would in fact not take place unless profits are large enough and the time period during which producers earn the profit is long enough to cover the costs of innovation.

Figure 1
Monopoly Profit



A MATHEMATICAL VERSION OF THE SCHUMPETERIAN MODEL

Growth models are normally presented in mathematical form. In this section, a relatively simple mathematical growth model is presented that closely summarizes the above theory and assumptions. That is, it captures the essentials of (Romer, 1990; Grossman and Helpman, 1991;

Aghion and Howitt's, 1992) well-known Schumpeterian models of technological progress and includes entrepreneurial activity.

First, suppose that each act of innovation consists of creating a new firm that produces a new product. Start with n firms in the economy, each producing one of n different products. Suppose also that each product requires one unit of labor, so that the marginal (and average) cost of producing each good is equal to w, the wage rate. Because each product is different, each producer enjoys some degree of market power so that each firm faces a downward-sloping demand curve. For simplicity, suppose that each firm faces an identical demand curve, which means that each firm sets the same price equal to

(1) $\rho = w(1/\gamma)$,

where $0 < \gamma < 1$ and the price markup $p - w = \mu = [(1-\gamma)/\gamma]w$. Since $w = p\gamma$, profit per unit is $p(1-\gamma)$. That is, because entrepreneurs face downward-sloping demand curves, they can set a price above the marginal cost of production w and, potentially, recover the cost of innovation. The total value of output is GDP, and total profit is

(2) $\Pi = GDP(1-\gamma)$.

The profit of any one of the n firms is

(3) $\pi = [GDP(1-\gamma)]/n$.

The present value of the earnings of a successful innovation is equal to the discounted stream of future profits, or

(4) $PV = \sum_{i=0}^{\infty} \rho^i \pi_{t=i}$,

where ρ is the discount factor $1/(1+r)$, where r is the interest rate, and the $\pi_{t=i}$ are the future profits in each future time period t. The present value of all future profits can be thought of as the "stock market value" of the firm.

Next, consider the equilibrium level of entrepreneurial activity. Entrepreneurs will innovate and enter the market so long as the present value of future profits, PV, exceeds the current cost of product development. Suppose that β is the amount of labor required to develop each new product. Then the cost of developing a new product is $w\beta$. Assuming that there is a fixed number of workers in the economy, the more firms attempt to hire workers to develop new products, the higher will be w, the opportunity cost of those workers' marginal product in producing goods. Innovation will stop expanding when the discounted future earnings from producing the nth good are exactly equal to the cost of creating the nth good. Putting together the costs and profits from innovation, the *innovation profit*, defined as θ , is

$$(5)\quad \theta = PV - w\beta .$$

Greater innovation (and greater innovation profit) takes place the lower β and w and the greater PV. For example, if public policy-makers desire a higher rate of technological progress, they may enact policies that change interest rates and business taxes which favorably influence θ . Changes in educational systems could also impact β, the amount of labor required to develop a new idea, by promoting science and technology as well as alternative ways of thinking, less resources would need to used to create a new innovation. If there is competitive innovation, meaning that all prospective entrepreneurs can demand resources for innovation and, if successful, market their new products, then $\theta = 0$ and

$$(6)\quad PV = \beta w.$$

Equation (6) represents the equilibrium condition for innovation and innovation profits (Lewer and Van den Berg, 2004).

CONCLUSION AND REMAINING ISSUES

Economists have modeled technological progress in two fundamentally-different ways. The earlier models assumed that technological progress is an unintentional by-product, an externality, of some other activity. Most of the more recent models have recognized that most new knowledge is created by intentionally applying scarce and, therefore costly, resources to innovative activities. The second set of endogenous growth models are most valuable for understanding technological progress. This paper adds to the understanding of endogenous technological progress by developing a mathematical model which incorporates effects of entrepreneurial activities on innovation.

After recognizing that it takes costly resources to create knowledge, ideas, and technology, the development of several other useful models of endogenous research and development activity can be created. By modeling technological progress to be the result of intentional efforts to create new ideas, better products, more efficient production processes, etc., policy makers are better advised to focus on how to stimulate such activities.

Many questions still remain and include: How can entrepreneurs be encouraged? What institutions lead entrepreneurs to innovate? Can other organizations generate and disseminate new ideas where entrepreneurs fail to act? How can the costs of innovation be reduced? What resources are most appropriate for creating new ideas? How can developing economies adapt existing ideas and technologies more efficiently to their specific circumstances? Recognizing that technological progress is the result of costly effort is an important precondition for finding the answers to these and many other important questions.

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AN EXAMINATION OF THE RELATIONSHIP AMONG ORGANIZATIONAL VALUES, STRATEGIES, KEY SUCCESS FACTORS, SKILLS, CULTURE AND PERFORMANCE OF MICRO-BUSINESSES

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ABSTRACT

In the United States, the level of economic dependence (revenues and job creation) on micro enterprises (fewer than 10 employees) has grown in recent years as the result of increased rightsizing and early retirements in middle to large-sized firms. As such, the government is placing increased emphasis on enterprise assistance programs and policies; particularly in the area of micro-businesses. This study examines relationships or linkages between the micro-business owner/manager's personal values and expertise, the strategies they adopt, the cultures they develop, and the financial and strategic performance within the retail craft industry. The findings suggest that owner/manager's personal values are highly correlated with the business strategy. Further, strategies that focused on the industry's key success factors (KSFs) had greater success than those that didn't. Also, an owner/manager's expertise was highly correlated with achieving financial and strategic objectives. However, the findings suggest that the current method of classifying business culture is not appropriate for micro-firms. Recommendations are offered for government assistance programs along with a strategic management model for future research.

INTRODUCTION

In the United States, the level of economic dependence (revenues and job creation) on micro enterprises (fewer than 10 employees) has grown in recent years as the result of increased rightsizing and early retirements in middle to large-sized firms (Chrisman & McMullan, 2002). Further, the government is trying to increase its emphasis on entrepreneurial opportunities for baby boomers as a method to reduce pressure on the social security system. As such, the government is placing increased emphasis on enterprise assistance programs and policies; particularly in the area of micro-businesses (Hoover, 2001). However, the effectiveness of these policies and programs are dependent on a thorough understanding of owner/managers and how they operate. While a plethora of research has been conducted on small businesses, very little has been conducted on micro-businesses. This study examines relationships or linkages between the micro-business owner/managers' personal values and expertise, the industry's key success factors and the strategies, the cultures they develop, and their financial and strategic performance.

The literature in this area suggests that owner/managers' personalities, in particular their values and goals, are indistinguishable from the goals of their business (Bamberger, 1983; O'Farrell and Hitchins, 1988). It is also suggested that owner/manager's personal values and resources (expertise) influence the strategies and in turn, the cultures they adopt in operating their businesses and, ultimately, the performance of their businesses (Thompson & Strickland, 1986). However, these propositions lack empirical support. Existing research tends to be based on qualitative case studies of small to mid-size businesses, i.e. no micro-businesses.

The aim of this research is to empirically test the relationships between the personal values and expertise of micro-business owner/managers (OMs), the industry's key success factors, the strategies they adopt, the cultures they develop, and their performance outcomes. A research model was adapted from the research of Kotsey and Meredith (1997) to explore the relationships among these five variables. In particular, the model suggests that certain dimensions of personal values are associated with specific strategy dimensions, cultures and certain performance outcomes. To address these areas of research, a study was carried out using data from retail craft micro-businesses in the southeastern United States.

PERSONAL VALUES AND ORGANIZATIONAL CULTURE

Organizational culture is generally defined as the values, beliefs, traditions, rituals, heroes and norms of the employees (Petrock, 1990; Schwartz & Davis, 1981). Using the values, beliefs and norms of large organizations, Deshpande, Farley, and Webster (1993) developed a cultural classification system. In short, they contend that large firms possess one of four organizational cultures: Market, Hierarchical, Adhocracy or Clan. Market cultures focus on competitiveness and goal achievement, led by decisive, achievement-oriented individuals with guiding strategies for achieving competitive advantage and market superiority. Hierarchy cultures stress order, regulation, and uniformity with more "coordinator" styles of leadership whose strategic emphasis is on predictable, smooth operations. Adhocracy' cultures emphasize entrepreneurship and creativity, where leaders are more innovative and risk-taking and whose strategic orientation focuses on innovation and growth. Lastly, Clan cultures emphasize teamwork, participation, cooperation, and a sense of belonging and family led by more mentoring leaders with strategic goals of building morale and developing human resources. Further, Deshpande et. al (1993) posit that four factors can be used to determine the type of culture a firm possesses: (1) Leadership; (2) Type of organization; (3) Organizational bonds; and (4) Measures of merit. As one can see, each of these factors in a micro-business is highly dependent on the owner/manager desires. In short, the evolution of an organization's culture flows from the top manager's values and is perpetuated through the management staff by the policies and procedures (e.g., hiring, promoting/demoting, socializing, training, rewarding). The strength of the organization's culture is critically affected by its leadership, communication, size, and structure (Schein, 1985). As such, one would expect to find strong cultures that are highly focused on the OM's values in micro-businesses because of the smallness in size and the close proximity between the owner/manager and workers.

H1: An organization's culture will be significantly related to an owner/manager's values in micro-businesses.

PERSONAL VALUES AND BUSINESS STRATEGY

Three basic factors influence managements' choice of strategy—management, environmental variables, and the firm's internal resources (Thompson & Strickland, 2003). The degree to which management and environmental variables influence business strategy has been debated by a number of researchers. Miller and Toulouse (1986) stated that management has the greatest influence in dynamic, unpredictable, and changing environments or in small businesses. Particularly in small businesses the need for change and action gives managers an opportunity to leave their personal imprint on the enterprise. Similarly, Porter (1991) and Peters and Waterman (1982) suggests that management values have a significant influence on both planned and emergent strategy. Bamberger (1983) goes further by stating that business strategies are products of managers' visions and values which in turn originate from their personalities.

Miller (1983) noted that managers have greater influence on business strategy in small firms, where the manager is also the owner of the firm. He explained that owner/managers are powerful enough to override obstacles to the successful realization of their business strategies. They have enormous impact on their enterprises through their power of ownership and face-to-face contact with employees (Miller & Toulouse, 1986). The owner/manager is thus at the center of all enterprise behavior and at the center of the OM are his or her values (Covin, 1991). Values are deeply rooted standards that strongly influence nearly every aspect of life including organizational behavior. Clearly articulated and understood, values significantly impact a firm's performance (Posner, Kouzes, & Schmidt, 1985). The influence of an individual's value system on the functioning of an organization is especially evident in small businesses (Olson & Currie, 1992). Small business owners' values largely impact the firms' success and performance (Higgins & Vincze, 1989; Guth & Taguiri, 1965; Olson & Currie, 1992). Theoretically, performance is affected by the relationship of the OM's personal value systems and OM's business strategy selection (Guth & Taguiri, 1965; Higgins, 1985; Higgins & Vincze, 1989; Miller, 1975; Posner, Kouzes, & Schmidt, 1985). Value-based management is a committed attempt to guide organizational decision making in accord with shared values. This approach to strategy development is one in which the organization's values are critical keys impacting the strategies chosen for determining and achieving long term goals. Hypothetically, the value system of the owner/manager is more important in small firms than the competitive environment and is reflected in the emergent strategies.

H2: An owner/manager's values will be positively related to the organization's emergent competitive (business) strategies in micro-businesses.

BUSINESS STRATEGY AND CULTURE

As previously mentioned, organizational culture is generally defined as the values, beliefs, traditions, rituals, heroes and norms of the employees (Petrock, 1990; Schwartz & Davis, 1981). In general, the evolution of an organization's culture flows from the organization's top manager and is perpetuated through the management staff by the policies and procedures (e.g., hiring, promoting/demoting, socializing, training, rewarding). Ideally, management creates an organizational culture through the policies and procedures to support the business strategy. In other words, culture follows strategy. A business or competitive strategy concerns the actions crafted to produce successful performance. This includes actions to build competitive capabilities and advantages through culture. For example, a firm with a "cost leadership" competitive strategy would attempt to create and maintain a culture of efficiency, whereas one of "differentiation" would focus on creating a culture of creativity and innovation (Porter, 1980). Porter (1980) suggests that successful small and micro-businesses will use a focused strategy based on differentiation. In other words, offering niche members a product they perceive as well suited to their own unique tastes and preferences. Successful use of a focused differentiation strategy depends on the existence of a buyer segment that is looking for special product attributes or seller capabilities and on a firm's ability make known their presence and to stand apart from rivals competing in the same target market niche. As such, the following hypothesis is proposed.

H3: Micro-businesses with different strategies will have different organizational cultures.

KEY SUCCESS FACTORS, CULTURE AND ORGANIZATIONAL PERFORMANCE

The performance of an enterprise is determined by the business strategy it adopts (Pearce & Robinson, 1985; Olson & Bokor, 1995). As previously mentioned, a business strategy is an overall game plan or plan of action which defines the competitive position of a firm (Mintzberg & Quinn, 1991). Several researchers have highlighted different business strategies by which firms compete (Miles & Snow, 1978; Porter, 1980; Merz & Sauber, 1995). For example, a firm may choose to compete by producing high quality goods or by producing at a low cost or focusing on a particular market niche. Hambrick (1983) notes that successful business or competitive strategies focus on the industry's key success factors. An industry's key success factors (KSFs) are those three to five competitive factors that most affect industry members' ability to prosper. Strickland and Thompson (2003) suggest that KSFs by their very nature are so important to competitive success that firms must develop their strategies around them. Paige (1999) defined the key success factors of the retail craft industry as: differentiation, customer satisfaction, consumer education, and advertising. As such, the following hypothesis is proposed.

H4: Micro-business strategies that focus on an industry's KSFs will have greater financial success (e.g. profit).

While the performance of an enterprise is determined by the business strategy it adopts, the successful implementation and maintenance of that strategy is dependent upon the organization's culture. In other words, the values and beliefs shared throughout the organization will shape how the work of the organization is done and as such, its performance. The research of both Deal and Kennedy (1982) and Kotter and Heskett (1992) indicates that the stronger or tighter the culture, i.e. the higher the percentage of employees that believe in the culture prescribed by top management, the higher rate of organizational success (i.e., achieving objectives). As previously assumed, micro-businesses should have strong cultures that are supportive of top management because of the close relationship between the owner/manager and the employees. As such, it seems reasonable to believe that the organizational culture of micro-businesses will have a significant effect on performance.

H5: Micro-businesses with different cultures will have different financial and strategic performance.

OWNER/MANAGER SKILLS AND ORGANIZATIONAL PERFORMANCE

A company's resource strengths or competitive skills are significant because they can form the basis for creating a competitive advantage and implementing a successful strategy. A company's success is more certain when it has appropriate and ample resources with which to compete, and especially when it has a valuable strength with the potential to produce competitive advantages (Collis & Montgomery, 1995). If a company doesn't have the resources and competitive capabilities around which to craft or implement an attractive strategy, managers need to take decisive remedial action to upgrade existing organizational resources and capabilities. This is particularly germane in micro-business where the bulk of the organization's business skills often reside with the owner/manager. In fact, research indicates that an owner/manager's lack of knowledge of his/her particular industry and skills requirements is a common cause of startup failures (Wood, 1994). As such, it seems logical to suggest that an owner/manager's skill set influence performance.

H6:	The degree of the OM's business expertise will be significantly correlated with the organization's financial and strategic success.

METHOD

Sample

The population of interest was small retailers of handmade crafts located in the nine southeastern states of the United States that include the Appalachian mountain range within their borders as identified by the Southern Highlands Handicraft Guild: Maryland, Virginia, West Virginia, North Carolina, South Carolina, Kentucky, Tennessee, Georgia, and Alabama. The sample included the owner/operators or primary decision-makers of small businesses (10 employees or less) carrying product assortments containing predominantly hand made finished craft products such as decorative or wearable fiber art, pottery and ceramics, basketry, wood, metal, glass, or jewelry. A random sample of 1000 small craft retailers was drawn from lists of 2021 craft retailers provided by Chambers of Commerce, craft publications, business cards from craft shows, and craft guilds within each of the states.

Response Rate

Nearly equal numbers of questionnaires were originally mailed to each of the nine southeastern U.S. states; however, response rates varied significantly. The greatest portion of respondents was from North Carolina at 28.1%, with Alabama having the lowest response at 3.6%. Of the 1000 questionnaires mailed, 196 (19%) were returned non-deliverable. Several respondents, totaling 54 (.054 %), returned the questionnaire incomplete stating reasons for not completing the questionnaire. From the remaining 750 questionnaires, 278 were completed and returned, resulting in a 38% overall response rate. Because the two separate survey mailings produced two different groups of respondents a wave analysis to test for non-response bias was conducted. The demographics of the two groups were compared using chi-squares and t-tests to determine if any differences existed. No significant differences were found between the groups.

Instrument Development and Pretest

Quantitative research techniques were used to gather the data necessary to accomplish the objectives. A questionnaire was developed based on a review of scholarly literature to measure the variables of interest including craft retailers' values, strategies, culture and their definitions of success. Each of the items was examined for construct validity by researchers with expertise in business management and organizational culture. The questionnaire was formatted according to the style recommended by Dillman (1978). The questionnaire was pretested twice; first with two scholars with research specialties in business management. Following a few necessary revisions, a second pretest was conducted among four small retailers of crafts.

The section on business values was designed to determine how respondents defined success, defined competitive strategies and how successful they believed their craft business to actually be. Participants first rated the level of importance of 14 criteria to define their value systems (Table 1). The criteria for defining values were developed from the literature and preliminary personal interviews and included statements of traditionally-based financial definitions such as achieving sales growth or increased profits and ranged to statements of success based on more personal or intrinsic definitions including personal happiness or balancing a personal life with work (Craig & Horridge, 1995; Kuratko, Hornsby, & Naffziger, 1997; Saylor, 1987; Solderssen, Fiorito, & He, 1998). The items were rated by the respondents on a 7-point Likert-type scale with 1 being "very unimportant" and 7 being "very important". After rating the criteria, respondents were then asked to indicate emergent strategies and how successful they considered their craft business using the criteria they considered the most important in the preceding 14 items. The questions were scored on a 7-point Likert-type scale.

The section on organizational culture consisted of four questions developed by Deshpande, Farley, & Webster (1993). These questions have been recognized within the marketing research discipline as a valid scale for measuring a firm's organizational culture (Bearden & Netemeyer, 1999). The Deshpande et al. (1993) scale for measuring organizational culture was adapted from Campbell and Freeman (1991) and Quinn (1988). The scale provides four descriptions related to each of four different business environmental issues: (1) Kind of organization; (2) Leadership; (3) What holds the organization together; and (4) What is important. The four descriptions relate to four types of organizational culture: Clan, Adhocracy, Hierarchical, and Market. The first item of each of the four questions relates to a Clan culture, the second item to an Adhocracy culture, the third item to a Hierarchical culture, and finally, the fourth item to a Market culture. The original Deshpande, et al. (1993) scale required participants to distribute 100 points across four descriptions representing the organizational culture types for the four different aspects of an organization. For this investigation organizational culture was measured using a revised version of the rating methods used by the Deshpande et al. (1993) study. Respondents were asked to rank each set of four descriptions from 1 to 4, with 1 being the characteristic which best described the small retail business.

Data Collection and Analysis

A multi-step mailing procedure was implemented utilizing the modified Dillman Total Design Method (Dillman, 1978). Two separate surveys with reminder post cards were mailed to the sample. Data analysis was initially undertaken to obtain an overview of the sample's characteristics using frequencies, percentages, and means. These questions related to the number of years the craft business had been in operation, the state in which it was located, which craft categories were carried in the store, and which category generated the greatest sales volume. Questions were also related to the background of the business person included years of business experience, gender and level of education, and finally, whether the income of the business was primary or supplemental.

A series of quantitative methods followed to test the study's hypotheses. Factor analysis, employed in an exploratory manner, was used to reduce the number of items for criteria for success. The orthogonal rotation technique was conducted first to determine that the factors were independent followed by the Promax rotation method of extraction to increase clarity and achieve a better fit. The strength of the factor loadings, the examination of the conceptual clarity of the items within each factor, scree-tests, and eigenvalues served in making decisions on how many and which factors to retain. Items with factor loadings of .40 or higher with a minimum difference of .20 on other factors were retained to define the factors. Each factor was named based upon the salient theme that carried through the items. A Cronbach's *alpha* of .60 was decided to be the lowest acceptable parameter for internal consistency for each of factor grouping. To distinguish the differences between the four groups, Fishers's (*LSD*) test of multiple comparisons was used. A <.05 level of confidence was used throughout the tests.

RESULTS

A typical small or micro-retail craft firm owner was female (75%). The owner/operators of the small firms worked between 10 to 93 hours per week, averaging 46 hours per week. Business experience of the craft retailers ranged from one to 50 years, with 17.5 years being the average. More than one-third of the retailers had some college education and one-third possessed a Bachelor's degree. For a little over one-half, the income of the craft businesses was supplemental to another household income. Over 90% of the respondents started the craft retail business and presently owned it as well. The craft retail firms had been in operation between one and 35 years with the average at 12 years. Two-thirds of the retailers had a full-time staff of employees; however, all had less than 10 employees. Lastly, there were no significant relationship between cultural type and years of experience, gender or number of employees.

Hypothesis one tested the proposition that the personal values of micro-business owner/managers are closely linked with the organization's culture. First, however, it was necessary to perform a factor analysis to classify the owner/manager's values. Fourteen owner/manager values were classified into four personal value groups (Table 1). The first value factor was classified as Entrepreneurial Values (EVs), because items described craft retailers' values in terms of business goals. The second value factor was classified as a Personal Values (PVs), because it described craft retailer's values in terms of personal goals. The third value factor was classified as Craft/Cultural Values (CCVs), because it contained items that depict retailers' values of reinforcing a region's cultural identity or preserving a craft's tradition. The fourth value factor was labeled as a Personal Expression Value (PEVs), because it reflected the retailers' desire to express themselves or to receive a psychic paycheck from working with crafts.

Table 1: Factor Analysis of Owner/Manager Personal Value Systems

Factor Title and Items	Factor Loadings
Entrepreneurial Values (EVs)	
Reason for starting business was to make money	83
Desire to fulfill a personal economic or financial need	81
Exceeding customer expectations	64
Achieving sales growth or increased profit	55
Cronbach's *alpha*=.73	
Personal Values (PVs)	
Reason for starting business was personal satisfaction	88
Achieving personal happiness and fulfillment	83
Having independence and control over my life	78
Feeling satisfied with owning my own business	72
Balancing family/personal life with work	60
Cronbach's *alpha*=.87	
Craft/Cultural Values (CCVs)	
Reinforcing the region's cultural identity	70
Providing a differentiated product or service	63
Preserving and elevating the craft tradition	60
Gaining a positive reputation in the community with consumers and the within the craft industry	57
Cronbach's *alpha*=.81	
Personal Expression Values (PEVs)	
Reason for starting business was love or passion for craft	85
Receiving personal gratification of working with crafts	72
Expressing my skills or talents	56
Cronbach's *alpha*=.71	

Next, it was necessary to determine whether the micro-businesses fit the cultural classification system proposed by Deshpande et al. (1993). Organizational culture was determined from a chi-square analysis of respondents' answers to the four questions developed by Deshpande et al. (1993). The results indicated that very few firms (41 out of 278) exhibited a totally pure culture, i.e. answered the same way on all four questions. Unfortunately, this was sample was not large enough to properly test several hypotheses. As such, the test sample size was increased to include those organizations that answered the same on three or more of the four questions were judged to be within that culture (192 out of 278). A follow-up comparison was performed between those groups that answered the same on all four questions and those groups that answered the same on only three questions. The results indicated no significant differences between these groups. As such, the firms that answered the same on three or more of the four questions were used to test hypotheses concerning relationships to the organization's culture.

A cross-tabulation of the results from the culture questionnaire (Deshpande et al., 1993) indicated that craft retailers most strongly described their organizational cultures as clan cultures (139 out of 192). A Clan emphasizes loyalty, tradition, cohesiveness, and teamwork. In clan cultures personal satisfaction is more important than achieving financial objectives. Small retailers of crafts next described their business environments as adhocracy cultures (20 out of 192) or market cultures (19 out of 192). Adhocracy cultures emphasize innovation and entrepreneurship while market cultures are distinguished by their focus on competitiveness and goal achievement. Additionally, they exhibit higher traditionally defined business performance criteria (e.g., profit, customer focus) than the others. Finally, the small retailers least described their organizational cultures as a hierarchical culture (14 out of 192). A hierarchical cultures focus on rules, regulations, and smooth, orderly business operations. In fact, most micro-businesses suggested that their organizations were anything but orderly.

Next, a chi-square cross-tabulation was performed to assess the relationship between the organizations' values and their cultures (H1). This was first performed by comparing the owner/managers' individual values (top two blocks of a 7-point Likert scale) to their answers on the four cultural questions (Table 2). Second, the owner/managers were given an aggregate score for each of the four value dimensions (e.g., EV, PV, CCV, and PEV) based on their responses in the top two blocks of the 7-point Likert scale. In turn, their value dimension scores were compared to the four cultures (Table 3). The findings of both of these tests offer partial support for hypothesis one. For example, the entrepreneurial value system identifies significantly with a market culture and personal value system identifies significantly with an adhocracy culture.

Table 2: Cross-Tabulation of Cultural Types to Individual Value Questions (by percentage in the top two blocks of a 7-point Likert scale)				
	Clan	Adhocracy	Hierarchical	Market
Helping others	59	50	25	62
Owning my own business	52	69	25	62
Exceeding customer expectations	53	69	50	62
Independent/control over my life	67	87	25	54**
Achieving personal happiness/fulfillment	62	81	0	54*
Incorporating personal values into my work	58	56	25	39**
Balancing my family/personal life with work	55	50	25	54**
Expressing my skills/talents	50	50	100	39
Achieving sales growth/increased profits	37	31	0	62**
Preserving and elevating the craft tradition	40	69	25	69**
Receiving gratification of working with crafts	46	69	25	54
Providing a differentiated product/service	50	62	0	86*
Reinforcing the region's cultural identity	30	63	0	46**
Gaining reputation in the community/craft industry	60	75	0	77*
** Significant at p<.01				

Table 3: Cross-Tabulation of Value Systems to Organizational Cultures (by percentage in the top two blocks of a 7-point Likert scale)				
	Clan	Adhocracy	Hierarchical	Market
EV	58	50	0	65
PV	82	100	0	67
CCV	89	90	0	89
PEV	80	90	100	89
Note: All values are significant at p<.01.				

Hypothesis two tested the proposition that the personal values of owner/managers are linked to their emergent strategies. In order to test this proposition a cluster analysis was performed to classify the organizations' retail strategies from their planned strategies and emergent behaviors. Subsequently, four strategies were identified from the competitive behaviors of the small craft retail firms. The first cluster, Entrepreneurial Strategy (Estrat), focused on managing the organization using "best practices." These owner/managers emphasized both financial (e.g., profit) and strategic objectives (e.g., knowledge of the industry's key success factors, customer satisfaction and the development of business skills). The second and largest cluster of small retailers used a Personal Strategy (Pstrat) which focused on creating a sound and lasting business. As such, their emphasis was on using "best practices" to stabilize the business rather for achieving financial objectives (e.g., profit, growth). The third cluster, Craft/Culture Strategy (CCstrat), indicated an emphasis to reinforce the region's cultural identity and preserve the craft tradition. At the same time, the business objectives were ones of sales and profit. These owner/managers, however, lacked the emphasis on "best business practices" stressed by the Entrepreneurship Strategy. Finally, the fourth culture, the Personal Expression Strategy (PEstrat), indicated the least importance on both financial and strategic objectives. One might say this was the lack of a business strategy. The achievement/satisfaction of goals, success criteria, or creating a family business was the least important to this group's owner/managers. Success entailed being able to express their skills or talents in their business and receiving personal gratification from working with crafts.

The owner/manager's responses to the questions on their competitive behavior were aggregated according to the four strategies. Then, each retail firm was assigned the emergent strategy in which their aggregated score was the farthest above the mean (at least one standard deviation). Only 96 of the 182 firms had strategies considered pure enough to test the hypothesis; 17 Estrat, 27 Pstrat, 28 CCstrat, and 24 PEstrat. Table 3 represents the cross-tabulation of the four value systems against the four strategies. The percentages are based on responses in the top two blocks (i.e., important and very important) of a 7-point Likert scale. All chi-square values were significant at $p<.01$.

Table 3: Cross-tabulation Comparison between Value Systems and Strategies (by percentage in the top two blocks of a 7-point Likert scale)

	ESTRAT	PSTRAT	CCSTRAT	PESTRAT
EV	88	34	51	41
PV	72	79	51	100
CCV	100	81	85	94
PEV	83	66	83	70

Note: All values are significant at $p<.01$.

For the most part, hypothesis two was supported. The owner/manager's value systems did agree with specific emergent strategies. For example, the Estrat was significantly associated with the value system of EV and CCV. The PStrat was most like the value system of PV and CCV. The CCstrat was most like the value system of CCV and PEV. The PEstrat was most like the value system of PV and CCV. Note that all strategies appeared to use the values of CCV.

Hypothesis three was developed to test the proposition that micro-businesses with different strategies will have different organizational cultures. A cross-tabulation was performed on the cultures developed from hypothesis one testing and the strategies developed in hypothesis two testing (Table 4). The results offer partial support for the notion that different strategies will have distinctly different cultures (as defined by Deshpande et al., 1993). As expected, the Market culture aligned with the Entrepreneurial strategy and the Clan culture aligned with the Personal strategy. Surprisingly, however, all cultures indicated that they used action of a personal expression strategy. As an interesting aside, those organizations that had the most specific strategies (i.e., purest) also claimed to be the most successful.

Table 4: Cross-Tabulation Comparison of Organizational Cultures and Strategies (by percentage in the top two blocks of 7-point Likert scales)

	ESTRAT	PSTRAT	CCSTRAT	PESTRAT
Clan	12	52	27	69
Adhocracy	6	19	6	88
Hierarchical	0	0	21	99
Market	26	15	46	74

Note: All values are significant at $p<.01$.

Hypothesis four was developed to test the proposition that micro-businesses with strategies that focus on the industry's key success factors will have a higher degree of financial success, i.e. profit. Paige (1999) defined the key success factors of the retail craft industry as: differentiation, customer satisfaction, consumer education, and advertising. The results of a correlation analysis of the firms' profits against the craft industry's key success factors indicate support for this hypothesis. Each of the key success factors (differentiation, customer satisfaction, consumer education and advertisement) were significantly correlated to profit at $p<.01$ (Table 5). Additionally, a regression analysis of the key success factors against profit revealed that the factors predicted 32% of the variance of profit at $p<.01$.

Table 5: Correlation of the industry's key success factors against a firm's profits

KSFs	Differentiation	Customer Sat	Consumer Education	Advertising
Profit	.30**	.28**	.06**	.32**

** Significant at $p<.01$.

Hypothesis five was developed to test the proposition that micro-businesses with different cultures will have a different financial and strategic performance. A cross-tabulation was performed on the four cultures and the performance indicators (profit and customer satisfaction). The results indicate the Market and Adhocracy cultures are best for achieving the traditional performance measures (Table 6). Both the Market and Adhocracy cultures were significantly more successful in achieving profits and customer satisfaction. As an aside, it is interesting to note that a higher percentage of owner/managers who identify themselves as having Market or Adhocracy cultures also indicate that the business is their primary source of income (Table 7). For example, 63 percent of the Adhocracy cultures and 62 percent of the Market cultures stated the business was their primary source of income. Lastly, since it appears that there is a strong relationship between culture and traditional performance measures, it shouldn't be surprising to note that there is a significant relationship between culture and education (Table 8).

However, some of the results are surprising. For example, although 100 percent of the owner/managers identifying with a Market culture had some college, none were college graduates. Fifty percent of those identifying themselves with an Adhocracy culture had some college, 42 percent had a bachelor's degree and 8 percent had some graduate school. Owner/managers exhibiting a Clan culture had the highest overall level of education; 32 percent had some college, 49 percent had a bachelor's degree and 14 percent had some graduate school.

Table 6: Cross-Tabulation Comparison of Organizational Cultures and Performance (by percentage in the top two blocks of 7-point Likert scales)

	Clan	Adhocracy	Hierarchical	Market
Profit	11	43	00	41
Customer satisfaction	17	50	00	45
All values are significant at p<.01				

Table 7: Cross-Tabulation Comparison of Organizational Cultures and Income Source (by percentage)

	Clan	Adhocracy	Hierarchical	Market
Primary	42	63	25	62
Secondary	58	37	75	38
All values are significant at p<.01				

Hypothesis six was developed to test the proposition that the business expertise of micro-business owner/managers will be significantly correlated with the organization's financial and strategic success. Owner/managers were asked to rate their skill level (7-Likert scale) in the following area: (1) managing financial matters, (2) buying the right product at the right time, (3) creating visual displays, supervising employees, (4) assessing customer needs, (5) possessing personal ambition, (6) working hard, (7) possessing business skills, (8) possessing math skills, (9) forecasting trends, (10) planning and strategizing, (11) pricing skills, (12) creating promotions and advertisements, and (13) using creativity and innovation. A correlation analysis was conducted between the business owner/managers' skill set and their financial and strategic performance. Profit was used as the measure of financial performance and customer satisfaction was used as the measure of strategic performance. The results indicated that most of the skills were highly correlated with an overall perception of success and the financial and strategic indicators (Table 9). Notable exceptions were that a sense of success wasn't significantly correlated to expertise in math, finance, supervision and high degree of ambition. The only expertise that was not significantly correlated with profit was the possession of math skills. The skills that were not significantly correlated with customer satisfaction were ambition and creativity.

Table 8: Cross-Tabulation Comparison of Organizational Culture and Education (by percentage)

	Clan	Adhocracy	Hierarchical	Market
Grades 1-8	02	00	00	00
Grades 9-12	13	00	21	00
1-3 years tech, voc or college	32	50	79	100
Bachelor's degree	49	42	00	00
Some graduate school	14	08	00	00
Graduate degree	00	00	00	00

All values are significant at p<.01
Note: Evaluation done on the 192 firms exhibiting the purest cultures

Table 9: Correlation of Business Skills and Organizational Performance

	Finance	buying	display	superv	cusneeds	ambit	hardwork	busskill	math	forecast	strategy	price	advertis	creativi
success	.09	.20**	.22**	.05	.22**	.06	.24**	.14*	.02	.18**	.19**	.19**	.20**	.18**
profits	.13*	.19**	.15**	.16**	.14*	.23**	.16**	.19**	.03	.15**	.19**	.14**	.21**	.09
cust sat	.24**	.32**	20**	.21**	.19**	.11	.20**	.22**	.18**	.20**	.25**	.30**	.23**	.09

** Significant at p<.01
* Significant at p<.05

In order to refine this analysis, a stepwise regression of the OM's skill levels was performed on the firm's success at creating profits. The results indicated two predictors at $R^2 = .14$, $p<.01$: hard work and expertise at creating visual displays. Additionally, a regression analysis of the OM's skill levels was performed on the firm's success at creating customer satisfaction. The results indicated five predictors at $R^2 = .27$, $p<.01$: pricing skills, managing financial matters, hard work, ambition, and expertise in supervising employees. In short, the hypothesis six was supported. Additionally, a cross-tabulation was performed to examine for relationships between organizational culture and the knowledge, skills and abilities of the owner/managers (Table 10). Not surprisingly, those OMs identifying themselves with Market and Adhocracy cultures possessed the highest level of business skills.

Table 10: Cross-Tabulation Comparison of Organizational Culture and Owner/Manager KSAs
(by percentage in the top two blocks of a 7-point Likert scale)

	Clan	Adhocracy	Hierarchical	Market
in managing financial matters	16	6	0	31
in buying the right product at the right time**	16	6	0	62
in visual display	28	56	0	39
in employee supervision	9	25	0	31
in assessing consumer needs and wants**	24	61	0	46
in personal ambition*	22	19	25	69
in working hard**	54	56	25	92
in business skills**	14	42	0	39
in math**	17	6	0	23
forecasting trends*	12	50	0	23
in strategizing and business planning**	11	19	0	0
in pricing*	25	50	0	54
in promotions and advertising*	12	25	0	39
in creativity and innovativeness	26	62	25	39

** Significant at p<.01
* Significant at p<.05

DISCUSSION

The aim of this research was to empirically test the relationships between the micro-business owner/managers' personal values and expertise, the strategies they adopt, the cultures they develop, the industry's key success factors, and their business performance. Previous theoretical research suggests that there should be a strong correlation between an organization's values and their culture. The findings in this study indicate that, in most cases, the OM's values are related to the organization's culture. In other words, OMs that valued entrepreneurial attributes created market cultures and ones that valued personal attributes created adhocracy cultures. On the other hand, each of the value questions (Table 2) was given high scores by members of the clan culture. This seems to suggest that the cultures of micro-businesses are heavily laced with clan-like values even though other cultural systems may predominate. Also, the craft/culture value system appears to be near the top of each culture except the hierarchical culture. This seems to suggest that the desire to promote the craft itself is an important part of the culture of the micro-businesses within this particular industry. Additionally, it should be noted that only 41 out of 278 businesses had pure cultures (i.e., four out of four on the culture classification questions) and that the vast majority of those had clan characteristics (71%). The lack of pure cultures calls into question whether the Deshpande et al., (1993) classification of organization culture works for micro-businesses. Lastly, as an aside, there was no significant relationship between cultural types and either the OM's years of experience or gender. This indicates that the culture of a micro-business is more dependent on the owner's values than his/her experience or gender.

Theoretical research on the relationship between top management values and strategies posit that value systems influence the development of strategies (Thompson & Strickland, 2003). As predicted, the findings of this study indicate a positive relationship between the OMs' values and their strategies. It was interesting to note, however, that all the emergent strategies contain of a high degree of the Craft/Culture value system. In other words, most organizations incorporated the following values into their strategies: (1) reinforcing the region's cultural identity, (2) providing a differentiated product or service, (3) preserving and elevating the craft tradition, and (4) gaining a positive reputation in the community with consumers and within the craft industry. Further, the results suggest that a matrix may be used to illustrate or classify organizational strategies of craft micro-firms based on OM values. For example, a two by two matrix may be constructed with a "personal values" on one axis and a "business values" on the other. As such, a strategy that is high in "personal values" and high in "business values" might be classified as a personal business strategy. One that is low in "personal values" and high in "business values" might be classified as entrepreneurial or market strategy. The results failed to capture any successful businesses that had both a low "personal" and a low "business" focus. This indicates that a "low-low" combination isn't the basis for a successful strategy. Also, similar to the cultural purity problem, only 51 percent of the test sample had strategies pure enough for testing. This suggests that approximately half the firms are using mixed or multiple strategies. But unlike the skewed distribution of cultures within craft industry, the pure strategies appeared to be relatively equally distributed; entrepreneurial 18 percent, personal 28 percent, craft/culture 29 percent, and personal expression 25 percent. Lastly, as one might expect, those organizations with the purest strategies (least variance on strategic factors) were also the most successful in achieving their goals.

Theoretical research on the relationship between strategy and culture suggests that "culture follows strategy" (Thompson & Strickland, 2003). In other words, managers develop a particular culture to implement a particular strategy. The findings offered only partial support for the notion that different strategies have distinctly different cultures. Surprisingly, however, the top two blocks of the Likert scale for the comparison of the Entrepreneurial strategy to all cultures was very low. Although the Market culture aligned the best with an Entrepreneurial strategy, only 26 percent of the Market cultures indicated that their entrepreneurial actions were in the top two block of the Likert scale. This suggests that entrepreneurial actions within the retail craft industry aren't as strong as one might think. Also, surprisingly, the Market culture aligned well with the Craft/Culture strategy. This suggests that organizations pursuing either an Entrepreneurial or Craft/Culture strategy implement a Market culture. Additionally, the alignment between the Clan culture and the Personal strategy was a fairly convincing 52 percent (top two blocks) as compared to the next culture with an alignment of 19 percent. Overall, it is interesting to note that a high percentage of cultures aligned with the emergent behaviors of the Personal Expression strategy. However, it doesn't appear to make sense that Personal Expression strategy should align so highly (99%) with a Hierarchical culture. Hierarchy cultures stress order, regulation, and uniformity with more "coordinator" styles of leadership whose strategic emphasis is on predictable, smooth operations. It is interesting to note, however, that all cultures gave high marks to those behaviors signifying a strategy of Personal Expression. This seems to suggest that regardless of the culture and the values, most retail craft business have a high degree of personal expression in their emergent strategy.

Theoretical research on business strategy suggests that firms that focus on the key success factors of an industry will be financially more successful (Porter, 1980). The findings of this study support that notion. Firms with the highest profits focus their strategies on the customers, i.e. satisfaction through differentiation and outreach through education and advertisement. As an aside, the generic competitive strategy of "focused differentiation" was used by 98 percent of the firms claiming to be financially successful (top two blocks of a 7-point Likert scale). This agrees with Porter's (1980) notion that small entrepreneurial firms need to pursue a "focused differentiation strategy to be successful.

Theoretical research on the relationship between culture and performance suggests that market-like cultures will have the best financial and strategic performance (Thompson & Strickland, 2003). The results of this study indicate that the Market and Adhocracy cultures are best for achieving the traditional performance measures (Table 6). This is reasonable since Market cultures focus on competitiveness and goal achievement, led by decisive, achievement-oriented individuals with guiding strategies for achieving competitive advantage and market superiority. Adhocracy cultures emphasize entrepreneurship and creativity, where leaders are more innovative and risk-taking and whose strategic orientation focuses on innovation and growth. Note that none of the organizations who identified themselves as Hierarchical were in the top two blocks of profit or customer satisfaction. Also, very few of those organizations identifying themselves as having a Clan culture had high performance in traditional terms. Additionally, it is interesting to note that a higher percentage of owner/managers who identify themselves as having Market or Adhocracy cultures also indicate that the business is their primary source of income (Table 7). Lastly, since it appears that there is a strong relationship between culture and traditional performance measures, it shouldn't be surprising to note that there is a significant relationship between culture and education (Table 8). Although one might expect that higher levels of education might correspond with the market oriented cultures, the results suggest that the clan cultures are the better educated. The data, however, doesn't indicate the disciplines in which the owner/managers received their education.

Theoretical research suggests there is a strong relationship between individual or organizational performance and knowledge, skills and abilities (Hackman, 1987). The findings of this study indicate that the owner/manager's skill set was significantly correlated with both the financial and strategic indicators as well as his/her perception of success. Not surprisingly, those OMs identifying themselves with Market and Adhocracy cultures possessed the highest level of business skills. What was surprising, however, was that the Adhocracy OMs appeared to possess a higher level of KSAs than the Market OMs in some key business skills (e.g., planning strategy, forecasting, assessing consumer needs). Perhaps this is because their level of education is higher. Also, not surprisingly, the initial preparation of a business plan was significantly correlated with the owner/manager's perception of success. Forty-nine percent of the owner/managers who initially completed a business plan reported the highest level of success. Only 32 percent of those who didn't initially complete a plan reported the highest level of success. Those OMs who initially completed a business plan were only slightly more successful (79% vs. 71%) at achieving the highest level of customer satisfaction. Unfortunately, only 30 percent of the owner/managers completed a business plan during startup.

CONCLUSIONS

A prime purpose of this research was to investigate the strategic management process of micro-businesses in hope of finding methods to improve their success rate. The strategic management process involves the development of values, objectives (key success factors), strategies, culture, and expertise to produce the desired results. The small business research model of Kotsey and Meredith (1997), i.e., OM values lead to strategies and strategies lead to performance was used as the basis for this research. Additionally, the research of Deshpande et al. (1993) on the classification of organizational cultures in large businesses was used to classify micro-business cultures.

The findings indicated that in most cases the OM's values influenced the organization's culture. In other words, OMs that valued entrepreneurial attributes created a market cultures and ones the valued personal attributes created an adhocracy cultures. It should be noted, however, that there were only 41 pure cultures out of 278 firms and the vast majority of micro-firms had characteristics of clan cultures. The lack of pure cultures calls into question whether the Deshpande et al., (1993) classification of organization culture works for micro-businesses. The results seem to suggest that a new instrument should be developed specifically to classify micro-businesses. Such an instrument might use questions based on the firm's personal and business goals to classify the culture. Also, future studies needs to consider the affect of part-time employees on the micro-business culture. While there were very few pure cultures, the ones that were pure, exhibited strong relationships to emergent strategies.

Additionally, the findings indicated that specific OM values were commonly associated with specific emergent strategies. For example, entrepreneurial valves were associated with entrepreneurial strategies and personal values were associated with personal strategies. Similar to the lack of purity in culture, only half of the craft retailers had what might be called a pure strategy; many seemed to use a broad array of competitive approaches. Surprisingly, however, all micro-craft firm strategies possessed a strong craft/regional culture value system. Also, the results indicate that those OMs who focused their strategies on the industry's key success factors outperform those who didn't. The least successful craft retailers had the least consumer orientation and a less focused strategy than the more successful firms. In general, business performance (profit and customer satisfaction) was related to the OM's efforts, expertise, and strategies. However, further research needs to be conducted to establish the exact relationship between factors within the micro-business strategic management process. While this research doesn't establish causal relationship, it does suggest a strong relationship between values and strategy, values and culture, and strategy and performance. Specifically, it suggests that values relate to strategy and culture and factors, such as culture and expertise may moderate the relationship between strategy and performance. This relationship is offered as a model for testing the strategic management of micro-businesses.

Lastly, this research indicates that governmental enterprise assistance programs should focus on building business expertise to include strategic planning. Additionally, the findings validated that consumer education and advertisement are key success factor in the craft industry. As such, this is another area that the government could lend assistance. This effort would go hand-in-hand with the growing interest in hand made products and efforts to increase tourism. Also, the significant relationship between OM expertise and business success suggests that an educational assistance program should be bundled with financial support programs.

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ORGANIZATIONAL ENVIRONMENT FOR NONPROFIT ENTREPRENEURSHIP DEVELOPMENT

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ABSTRACT

The paper argues that entrepreneurship in an existing organization (intrapreneurship) is the outcome of the interlocking entrepreneurial activities of multiple participants, entrepreneurship is distributed throughout a structure, not mainly the strategic apex, and appropriate organizational settings are required to promote entrepreneurial behavior among organization members. The paper distinguishes among three types/roles of intrapreneurship in the nonprofit sector: social/human service, fund raising, and venture. A set of research questions is tested empirically to assess organizations' environment in fostering entrepreneurship. Survey result (219 nonprofit managers) shows that nonprofits are likely to develop organizational characteristic attributes of entrepreneurship and that certain organizational characteristics are associated with intrapreneurial behavior as measured by organization members' risk-propensity. Also, the result shows that aspects of organizational culture and management style (more controllable factors) seem to have more influence than the organizational structure and resource aspects (less controllable). Nonprofit managers are advised to establish organizational culture and context of receptive conditions for new ideas and the possibility of failure. This study fills a research gap of how nonprofit organizational characteristics foster entrepreneurship or retard it.

INTRODUCTION

There is a strong argument that entrepreneurship and innovation are essential characteristics of successful nonprofits (e.g., Brinckerhoff, 2000; Hisrich et al, 2000; Kanter, 1999). Nonprofit entrepreneurship is emerging as an innovative approach for dealing with a dynamic and competitive environment. The magnitude of environmental adversity (shrinking resources, competition) and social and economic changes create pressure on these organizations to adopt a model of nonprofit entrepreneurship as "a proactive style of management through which leaders of nonprofit organizations seek to implement change through new organizational and programmatic initiative" (Young, 2001, p. 218).

While the traditional role of nonprofit entrepreneur is about start-up activity and new nonprofit creation, not all entrepreneurial roles fit this mold (Shane & Venkataraman, 2000). Many individuals are attracted to the nonprofit mission of an existing organization and its working environment and to the idea of helping in building or revitalizing a failing organization. Frumkin (2002) asserts that the low rate of nonprofits closure is explained by entrepreneurial activities of individuals who join existing nonprofits. Low rate of nonprofits failure by its turn may contribute to the widely observed expansion of the sector.

The concepts of social entrepreneurship and social enterprise have been rapidly emerging as an integrating theme for entrepreneurship models or roles in achieving social mission (Renz, 2001; Johnson, 2000; Leadbeater, 1997). Social entrepreneurial activities blur the traditional boundaries between nonprofit and for-profit sectors and emphasize hybrid models for social and economic activities (Young, 2002). Broadly defined, “social entrepreneurship” refers to activities encouraging more entrepreneurial approaches in the nonprofit sector in order to increase organizational innovation and effectiveness (Thalhuber, 1998). According to this view, social entrepreneurship is a means by which nonprofits enhance the entrepreneurial abilities of their employees.

Several authors have argued that entrepreneurship in an existing organization is the outcome of the interlocking entrepreneurial activities of multiple participants, and that hospitable organizational settings and environmental opportunities are required for entrepreneurial behavior (e.g., Shane & Venkataraman, 2000; Sykes & Block, 1989).

Thompson et al (2000) note that the process of nonprofit entrepreneurship often happen when entrepreneurial people are linked with the visionary idea, appropriate autonomous organizational setting, and opportunity to act. Current studies of entrepreneurship in an existing organization have focused on the interaction between individuals’ characteristics and internal and external environments (e.g., Walley & Taylor, 2002; Busenitz et al, 2000).

This paper focuses on organizational characteristic attributes of intrapreneurship and how they influence nonprofit entrepreneurship. This study assumes that entrepreneurship is distributed throughout a structure, not mainly the strategic apex (the board and CEO/ED). The paper distinguishes between multiple roles/types of intrapreneurial participants and examines organizational characteristics (culture, structure, and management style) that seem to facilitate and develop nonprofit entrepreneurship. Specific research questions are outlined and tested empirically. Organizational setting will be assessed using a survey originally designed to assess an effective organizational intrapreneurial environment in the private sector.

Despite numerous discussions of nonprofit entrepreneurship, the writers are not aware of empirical research that examines organizational characteristics that seem to enhance and facilitate internal entrepreneurship. In their recent literature review of entrepreneurship in the nonprofit sector, Hisrich et al (2000) identify this research gap and have argued for the need to know how nonprofit organizational characteristics foster entrepreneurship or retard it (p.332). Exploration and research on this area seem to be needed at both of the theoretical and application levels.

NONPROFIT INTRAPRENEURSHIP

Similar to all entrepreneurs, nonprofit entrepreneurs are energetic individuals, with a higher than average tolerance for risk, uncertainty and desire for autonomy, and a willingness to pursue their goals in spite of initial obstacles or lack of resources values (Waddock and Post, 1991; Doig and Hargrove, 1987).

As illustrated in the literature, the concept of intrapreneurship is almost synonymous with innovation initiated and implemented by employees (e.g., Ucbasaran et al, 2001; Zahara & Pearce, 1994). Intrapreneur has also been referred to as the "in-house entrepreneur" (Pinchot, 1985), the "idea manager" (Tropman, 1984), and the "corporate entrepreneur" (Carrier, 1996).

Nonprofit intrapreneurship may emerge spontaneously if the situation permits. Burgelman (1983) found that intrapreneurship consists of autonomous behavior by employees that emerge as a result of belief in mission, personal inclination, and internal opportunity (in terms of availability of untapped resources or organizational structure opportunity). On their study of intrepreneurship in nonprofits, Neilson et al (1985) and Quinn et al (1988) characterize this role as being involving promoting innovations in a rapidly than slowly evolving environment. "In these situations, it is often not the boss, but someone in an odd corner of the organization — a champion for some technology or strategic issue — who takes on the entrepreneurial role" (Quinn et al (1988, p.531). While these two last studies focus mainly on large nonprofits, this sort of entrepreneurial behavior is found to be observed as well in medium and small sized organizations (e.g., Carrier, 1996; Zahara & Pearce, 1994).

Also, Nielsen et al (1985) found that part of the intrapreneurial internal role is to resolve conflict between structural differentiation and integration in the organization. They cite for-profit, nonprofit and public organization cases that show this conflict can be solved by means of intrapreneurial activity. In this case, the intrapreneurial role is to resolve conflict between the need for integration of the total organization and the need for flexibility/innovation of different programs/units and to make sure that secondary activities satisfy or are integrated into the organization's mission and strategic needs. This can be an important function if the nonprofits have commercial activities. This integration function also imply that some intrapreneurial roles required the skills or the involvement necessary for the administration.

Ucbasaran et al (2001) have argued "… entrepreneurship is not necessarily a single-action event. Entrepreneurs, among themselves, may display differing characteristics and patterns of behaviour, which warrants research into different types of entrepreneurs" (p.61). Some of these intraprenuerial roles are briefly outlined below.

NONPROFIT INTRAPRENEURSHIP ROLES/TYPES

In comparison to the private sector, nonprofit entrepreneurs seem to be motivated more by a wider range of personal intrinsic needs and social desires. Thompson et al (2000) note that the motivations of the nonprofit entrepreneurs are not homogeneous and go beyond profit. Young (1985) studied 11 human service organizations with a focus on entrepreneurship. He found that motivations vary widely to include the fulfillment of strong social, religious beliefs or causes, the artistic-like urges to build and create, the seeking of status or inner satisfaction from professional achievement and accomplishment, the psychological need to test oneself and prove that one is capable of carrying off a major project or program, the pursuit of innate desires to help, teach, or serve the less fortunate members of society, the intellectual satisfaction from shaping and implementing new ideas, the achievement of personal recognition, power, or social status, the desire for autonomy and independence (to be one's own boss), the maternal-like satisfaction of parenting an enterprise and seeing it grow, and the material security and gain.

The literature shows that nonprofit entrepreneurs are found to assume a variety of types or roles for a wide range of personal and organizational reasons. This section attempts to distinguish between three nonprofit entrepreneurship roles or types. Differences in terms of personal characteristics and purpose for change/innovation are briefly emphasized in order to sharpen the distinction. The purpose of the following discussion is not to develop a typology but rather to build the argument that entrepreneurship is distributed throughout a structure and that nonprofits are entrepreneurial and innovative when they display attributes that facilitate entrepreneurial characteristics and behavior of the organization's members.

The Social/Human Service Role

Social entrepreneurs are creative thinkers, even more than other entrepreneurs. They create a new social concept or a new way of providing an existing human service. The social or human service entrepreneurial role involves coping effectively with environmental complexity and the dynamics of social changes and customers' needs (e.g., Heimovics et al, 1993) and it requires the ability to deal with a "complex social" problem by converting it into a specific social value "vision" (Waddock and Post, 1991).

The Fund Raising/Charity Role

While chief executives and trustees are usually involved in fund raising activities, the nonprofit organization is still in need of a fund raising or philanthropy entrepreneur (Reis & Clohesy, 2001). With a new idea or concept, the fund raising entrepreneur is able to raise public consciousness and marshal support. This is especially important in a time of social crisis or economic down turn, or when the range of options is smaller due to organizational structure and charitable purpose constraints.

As characterized in the literature, this role seems to require artistic and creative types of individuals who are motivated by human/social crisis situations (e.g., Reis & Clohesy, 2001). In their study of popular fund raising cases (e.g., Hands Across America and Partnership for Drug Free America), Waddock and Post (1991) also found that leading fund raisers act to perform boundary-spanning and coalition-building activities. Fundraisers look for new resources and networks and they provide knowledge of external conditions and valuable advisement services to the organization. If we accept the idea that, in comparison to other types, fund raiser entrepreneurs may not be required to have the skills or the involvement necessary for the administration, then it is safe to suggest that this is a role that fits volunteers very well.

The Commercial Venture Role

This role is similar to the venture strategy in terms of revenue-producing activities. Hofer and Sandberg (1987) characterize successful venture entrepreneurs as having a detailed knowledge of the key success factors in their businesses and the ability to identify potential venture opportunities. Nonprofits need this type of entrepreneur when it is necessary to raise revenue that can be used to finance their nonprofit operations. Federal and state funding for nonprofits decreased 23% in the 1980s (Salamon, 1989) and continued to decline in the 1990s (Mcleod, 1997). Hisrich et al (2000) consider commercial venture as an important category of entrepreneurial activity in the nonprofit sector.

Also, as explained in the literature, a venture entrepreneur is the person who has innovation and growth as main objectives (e.g., Carland et al, l984). However, the venture expansion of a nonprofit organization should be gradual in order to avoid disruption of core operations, threats to their legal and tax status, or risks to their charitable and financial conditions (Dees, 1998). The commercial entrepreneurial problem includes how to locate and exploit new opportunities while simultaneously maintaining a firm core business/mission.

The next section deals with organizational characteristics that are found to be important to foster intrapreneurship. Research issues are also developed.

ORGANIZATIONAL CHARACTERISTICS NEEDED TO FOSTER INTRAPRENEURSHIP

Entrepreneurial organizations are those which are willing to accept uncertainty and the possibility of failure for the purpose of gaining benefit from innovations (Firestenberg, 1986). Research has attempted to identify internal organizational factors that facilitate entrepreneurs' personal characteristics, such as risk-taking propensity, internal locus of control, and desire for autonomy and motivate them to engage in innovation and entrepreneurship. While the published research contains a wide variety of these factors, some consistent elements are found to include the elements of management practices, organizational resources and competencies, organizational culture, organizational structure, and organizational strategy (e.g., Busenitz et al, 2003). Subsumed under each of these elements are assortments of organizational policies and procedures that may be established by management. Given the breadth of the concepts of organizational cultural and structure, scholars have addressed them from different perspectives.

Some of the nonprofit organizational characteristics that are assumed to be a good potential environment to foster entrepreneurship include employees' participation (Durst & Newell, 2001), an adaptive and learning internal environment (Weeler, 2000), and a flat and flexible structure with a culture of trust and creativity (Leadbeater, 1997). In her study of human service organizations and their adaptation strategies for the current nonprofit environment, Alexander (2000) found that the hierarchical model of traditional command and control has limited applicability because nonprofits are usually smaller, leadership has a weaker authority, and the composition of employees is by large professionally licensed, highly mobile and peopled by volunteers. Management style is more participative and decentralized.

In addition, the growing interest in the process and practice of corporate entrepreneurship or intrapreneurship in the private sector has produced several frameworks in fostering entrepreneurship (e.g., Covin & Miles, 1999; Hornsby et al, 1993; Covin & Slevin, 1991). Covin and Slevin (1991) propose a conceptual model of a corporate entrepreneurship process that includes individual, organizational and environmental factors and their interactions. Kuratko et al (1990) present a multi-dimensional scale, to assess a hospitable working environment, that includes the factors of management support for innovation, flexible organizational structure, risk taking encouragement, and time availability to pursue ideas, and resource availability. This last framework is adopted in the current study.

RESEARCH QUESTIONS

Literature in the nonprofit sector has recognized the existence of entrepreneurship as part of life or intrinsic force in the nonprofit sector (e.g., Drayton, 2002; Frumkin, 2002; Hisrich et al, 2000). For example, Frumkin (2002) argues that nonprofits are vehicles to bring about change for entrepreneurs. Hisrich et al (2000) assert that social and human service organizations are publicly supported and explicitly designated with their own tax code for the purpose of bringing about change and innovation (p.323). Young (2001) cites the following developments in the nonprofit sector as evidence of entrepreneurial effort : (1) over the last two decades, the nonprofit segment of the American economy has grown rapidly in comparison to the government and business, which suggests the presence of considerable entrepreneurial effort, (2) the nonprofit segment shows a steady entry of new organizations and is populated largely by young organizations, which reflects nonprofit entrepreneurial behavior in addressing unsatisfied social, health, and other needs, forming their own organizations, mobilizing resources, and introducing new programs and services, and (3) missions of many nonprofits are framed in terms of introducing change, which exhibits the entrepreneurial character. That said, we suspect that nonprofit organizations in general would exhibit receptive entrepreneurial characteristics.

Furthermore, using risk-taking propensity of employees in the public sector as a dependent variable, Moon (1999) found that flat structure, low level of formalization, low level of centralization, and high level of organizational trust between members and leaders tend to promote a high level of risk-taking propensity and entrepreneurship of organization members. Hisrich et al (1996) found that risk-taking and persistence are two very important personal characteristics associated with innovation in the nonprofit sector.

Considering the reviewed literature, at least two propositions are possible:

1. With regard to the responsiveness of nonprofits to encourage employees' entrepreneurships, nonprofits, in part due to a range of flexible structure, procedures and policies and autonomy, are likely to develop organizational attributes of intrapreneurship.

2. Nonprofit organizations that are characterized by more organizational attributes of intrapreneurship are likely to promote more risk-taking behavior than nonprofits with fewer characteristics.

However, due to the exploratory nature of this study, analyses were structured around the following fundamental research questions rather than specific hypotheses:

1. What are relevant organizational characteristics that foster employees' intrapreneurship?
2. How do members of nonprofits respond to these characteristics?
3. To what extent do organizational characteristics explain the variance in the members' intrapreneurship behavior?

The paper will next explore these research questions. Results and implications will then be discussed.

METHODS

To gather a sample, we looked in the National Directory of Nonprofit Organizations, published by the Taft Group, in the New York State. Hospitals, schools, and religious organizations were not included in the study. Each company selected was assigned a number starting with one. The first 457 companies with even numbers were selected.

The instrument used in this study is the intrapreneurial assessment instrument (IAI) developed by Kuratko et al (1990) to identify the dimensional structure of organizations in terms of its ability to support intrapreneurial activity. This instrument focuses on factors which are essential in developing a perceived entrepreneurial environment for managers and employees. We considered this survey since it is already been used in the private sector and it is comparatively applicable as will to smaller firms (e.g., Covin & Slevin, 1991). This is an important consideration since nonprofits on the average are smaller than for-profit organizations (Kushner & Poole, 1996)

The original IAI consists of 28 descriptive statements constructed around five factors: (1) management support (recognition and encouragement of innovation/innovators, etc.), (2) organizational structure (cross functional teams, unrestricted communication, flexible job description, etc.), (3) risk-taking encouragement and tolerance for failure (risk-takers are recognized and encouraged, mistakes are permitted, etc), (4) time availability (e.g., slack time to develop ideas and deal with long term problems), and (5) reward (for risk-takers) and resource availability (for new ideas/projects, etc). Respondents were asked to indicate how descriptive of their work areas or the organization they feel the items are on a five-point Likert scale (1 = Not at all descriptive, 5 = Very descriptive).

Companies selected were mailed three questionnaires each, with return envelops, to the executive director. Executive directors were asked to fill one of the questionnaires and to distribute the other two to top- and lower-level management. In their review of studies of entrepreneurial firms, Lyon et al (2000) find that management perceptions of firm-level variables such as strategy and structure are often used and that several studies often rely on the responses of a single key player to represent the views of the whole firm.

We received 247 responses out of total 1371 questionnaires for a response rate of 18.02 percent. Missing data reduced the usable sample size to 219. The components of managerial positions in the final sample include 72 (32.8%) president/CEO/ED, 65 (29.9%) V.P./director/top management, 43 (19.6%) associate director/middle level, and 39 (17.8%) program manager/counselor/first level. Average seniority with the current organization is 7 years. Range of organization size is between 5 to 3033 full time employees and the average is 96. Almost sixty percent (59.8%) described their organizations' mission as social and human service and forty percent (40.2%) as other types of services (art/culture/other services).

Fifty-nine percent (59.4%) of the sample reported they had previously worked for business firms before they moved to their current nonprofit organizations. Almost thirty-nine percent (38.7%)

of these individuals had experienced a salary decrease as a result of joining nonprofits. Thirty percent (29.8%) had experienced a salary increase.

Table 1 shows other demographic characteristics. Table 1 also shows the sample responses to statements regarding how they get involved with the current organization.

Table 1: Sample Characteristics/Profile (n=219)

Demographic	Percent
Female	53.3
Male	46.7
College degree	40.2
Master degree	46.1
Full time	92.7
How did you get involved with the current organization?	Percent [1]
Because of the working environment	66.7
Because of perceived social need	63.9
Belief in the mission	35.6
Because of financial compensation factors	21.0
To start an organization that centers on personal beliefs	8.7
Others[2]	29.2

[1] Respondents answer more than one category
[2] Many reasons including commuting and convenient working hours.

In this study, we attempted to determine the impact of organizational setting on entrepreneurship in terms of individuals' risk-propensity behavior. As depicted in the literature, the propensity for risk taking is an essential element in the entrepreneurship process and it refers to a variety of financial, social and psychological risk associated with the pursuit of opportunities, change, new ideas or innovations (e.g., Tropman, 1989; Quinn, 1985).

RESULTS

One way to deal with the first question (What are relevant organizational characteristics that foster employees' intrapreneurship?) is to examine the factor structure of the IAI instrument and compare it with Kuratko et al's (1990) findings in the private sector using the same instrument. The results of the principle components factor analysis, based on a Varimax rotation, suggested the hypothesized five factors. The resulting factors, item abbreviations, factor loading, and alpha reliability are in Table 2. The analysis was done by using SPSSx. Similar procedures were followed in Kuratko et al's (1990) original study. Our resulting factors are risk-taking encoutagement (five items), management support for innovation (five items), flexible organizational structure (three items), time availability (three items), and reward and resource availability (two items).

Essentially, one management support item was integrated into the risk taking encouragement factor and one structure item was integrated into the management support factor. Total number of items was reduced from 28 to 18. The dimension of reward and resource availability does not include many of the items that are in the original survey. It includes only two items ("lack of funding" and "problems with the budget"). The rest of the items were reduced from the analysis.

Kuratko, et al's (1990) original study suggests a three-factor solution instead of the hypothesized five factors scale. Their three-factor solution includes management support (nine items), organizational structure (six items), and reward and resource availability (six items). According to their result, the time availability factor was integrated into rewards and resource availability while the risk-taking factor was integrated into the management support factor. Their number of items was reduced from 28 to 21. Our resulting five factors (Table 2) provide empirical evidence as to the existence of certain structural dimensions that are proposed to enhance entrepreneurship.

To analyze organizational characteristics' effects (How do members of nonprofits respond to these characteristics? To what extent do organizational characteristics explain the variance in the members' intrapreneurship?), a least squares regression analysis was conducted. There were six independent variables that include: (1) Risk Taking Encouragement, (2) Management Support, (3) Organizational Structure, (4) Time Availability, (5) Reward and Resource Availability, and (6) Employees' Participation. The first five measures were composite indices created from factor analysis listed in Table 2. Employees' participation measure was added since the original scale (Kuratko et al, 1990) does not include participation as a relevant aspect of organizational setting. Several studies have reported greater emphasis by nonprofits on providing opportunities for employees' participation (Durst and Newell 2001; Montes, 1997; Siciliano, 1997). Our survey asked respondents to indicate their agreement or disagreement, from Not at all descriptive (1) to Very descriptive (5), on the following statement "Employees participate in most decisions that directly impact them".

Table 2: Rotated factor structure (n=219)

	Factor Loading
Scale 1: Risk Taking Encouragement (scale alpha = 0.7261)	
1.Mistakes are rarely given second chances*	0.72
2.Calculated risks are encouraged	0.49
3.Mistakes are defined as failure*	0.72
4.Mistakes are defined as learning experiences	0.64
5.Ideas are not fully developed by original innovators*	0.54
Scale 2: Management Support (scale alpha = 0.7573)	
1.Self appointed innovators receive encouragement	0.55
2.Senior managers encourage bending rules	0.53
3.Top managers are known for their experience with innovation	0.73
4.Top management provide sponsorship for innovative projects	0.79
5.Members generate new ideas without regard for crossing functional boundaries	0.55
Scale 3: Organizational Structure (scale alpha = 0.5988)	
1.Job descriptions are of strong concern*	0.67
2.Defining turf is important*	0.75
3.Slack time is given to develop ideas	0.60
Scale 4: Time Availability (scale alpha = 0.6284)	
1.Jobs are too structured to think about wider problems*	0.69
2.Always working with time constraints on job*	0.74
3.Workers find time for long term problem solving	0.55
Scale 5: Reward and Resource Availability (scale alpha = 0.7041)	
1.Ideas often die because of lack of funding*	0.81
2.Budgeting process leads to problems with continued funding for new project*	0.77

* Score is reversed because item is stated in a negative terms

The dependent variable was a behavior statement regarding organization members' propensity for risk taking. Respondents were asked to indicate their agreement or disagreement, from Not at all descriptive (1) to Very descriptive (5), on the following statement "Most employees in this organization are not afraid to take risks". A similar statement was used by Moon (1999) as a dependent variable. Table 3 lists the independent and dependent variables and their mean, standard deviation, and correlation coefficients.

Table 3: Descriptive statistics and correlations of all the variables (n=219)

Variables	Mean	s.d.	1	2	3	4	5	6
1.Participation	3.68	1.23						
2.Risk Taking	3.78	.81	.239**					
3.Management Support	3.46	.84	.320**	.494**				
4.Organizational Structure	3.03	.98	.264**	.451**	.419**			
5.Time Availability	3.13	1.04	.140*	.332**	.251**	.415**		
6.Resource Availability	2.52	1.21	.135*	.161*	.234**	.331**	.161*	
7.Risk Propensity	3.68	1.16	.342**	.375**	.331**	.262**	.148*	.137*
*p .05: **p .01								

Table 4 displays the result of the regression model. The R^2 is .225 and the factors of risk-taking encouragement (p-value = 0.00), participation (p-value = 0.00), and management support (p-value = 0.098) are statistically significant. The three other factors of organizational structure, time availability, and availability of resources are not significant.

Table 4: Least Squares Regression Results for Risk-Propensity (n=219)

Independent Variables	Coefficient	p-value
Constant	0.917	.002
Participation	0.222	.0003
Risk Taking	0.362	.0008
Management Support	0.169	.098
Organizational Structure	0.074	ns
Time Availability	-0.072	ns
Resource Availability	-0.003	ns
R^2	.225	
Adjusted R^2	.203	
F (Total equation)	10.235	.0000

The results in tables 3 and 4 shows that nonprofits that are characterized by more organizational attributes of entrepreneurship are likely to promote more risk-taking behavior than nonprofits with fewer characteristics.

DISCUSSION

The results show that if nonprofits develop organizational characteristic attributes of intrapreneurship, these attributes are likely to promote entrepreneurial behavior. The result is, in fact, more positive than reported by Kuratko et al (1990). Our result shows more support for the dimensions of risk-taking and time availability. Table 3 shows the factors of participation, risk taking encouragement and management support for innovation as having above average values. There is no reason to doubt the sampling procedure that followed by the study. The response rate was not high (almost 18%), however the responding organizations were quite diverse in terms of mission, size, and locale.

The regression model (table 4) suggests that the model is modestly able to explain a little over 20 percent (adjusted $R^2 = .203$) of members' risk-propensity (the dependent variable). Tables 3 and 4 show that the factors of tolerance for mistakes or risk-taking encouragement, employees' participation, and management support for innovation can be significant predictors of employees' risk propensity by themselves and in combination with the other factors (McNabb, 2002). Overall, these three factors are more organizational culture than structure aspects.

Table 4 shows that organizational structure and time and resource availability are not significant. These factors are still important by themselves (table 3), but not in combination with the other factors (McNabb, 2002). Table 3 shows moderate-to-high correlations among all these variables.

Individual characteristics may lead entrepreneurial behavior if the internal conditions facilitate this behavior. Entrepreneurs' personal characteristics may also be enforced by the existence of an internal hospitable environment. Scholars argue that, similar to other entrepreneurs, nonprofit entrepreneurs are energetic individuals, with a higher than average internal locus of control, need for achievement, tolerance for risk, and desire for autonomy and a willingness to pursue their goals in spite of initial obstacles or lack of resources values (e.g., Diaz & Rodriguez, 2003; Waddock & Post, 1991). While they were not tested in the current research, personal characteristics such as tolerance for risk, achievement motivation, locus of control are found to be related to risk-taking behavior (e.g., Gatewood et al, 1995; McClelland, 1987). For example, participation and flexible job design are expected to empower employees and encourage their desire for autonomy and internal locus of control.

The next section will attempt to integrate the earlier discussion of intrapreneurial roles/types with the empirical part of the study.

LINKAGE BETWEEN ENTREPRENEURIAL TYPES/ROLES AND CONTEXT

The earlier part of the paper argues that nonprofit entrepreneurship is typically the result of the interlocking entrepreneurial activities of multiple participants and that the roles of entrepreneurs are to provide the required diversity. The paper differentiates between social/human service, commercial venture, and fund raising intrapreneurships. As argued by Moon (1999) and Hornsby et al (1993), dimensions of organizational characteristics are each significant in different ways to the entrepreneurs' characteristics (e.g., risk-taking, locus of control, autonomy) and behavior.

Some linkages or testable relationships between entrepreneurial types/roles, personal characteristics and context are proposed here to guide future research based on our framework. The following is few illustrations that partially use some of our empirical results.

For example, in a situation where a nonprofit needs to develop a new commercial venture (venture entrepreneurship) or where it is necessary to raise funds that can be used to finance their nonprofit operation (fund raising entrepreneurship) , high levels of management support (in terms of encouraging self-appointed innovators, innovators to bend rules and rigid procedures, and employees to generate new ideas without regard for crossing departmental or functional boundaries) and tolerance for mistakes (in terms of allowing calculated risk and that mistakes are defined as learning experiences) are suggested. Individuals with high tolerance for uncertainty and/or internal locus of control are expected to be involved in risk-taking and entrepreneurial activity.

Another illustration is that in a situation where a nonprofit deals with a "complex social" problem, it is recommended that low levels of job descriptions, high levels of slack times and high levels of employees' participation be provided to employees. These will enhance developing ideas and will give the social and human entrepreneur more room to plan to target innovation areas. Individuals with high desire for autonomy and tolerance for uncertainty are expected to be involved in risk-taking and entrepreneurial activity.

CONCLUSION

This paper attempts to identify nonprofit internal environment that facilitates and motivates employees to engage in entrepreneurship. The result of the empirical data shows that the elements of risk-taking encouragement, employees' participation, management support for innovation, structure, and time and resource availabilities are related to entrepreneurship as measured by employees' risk-taking propensity. This should be important to management since change and innovation are associated with risk propensity. Several researchers have asserted that individual differences in the willingness to bear risk influence the decision to exploit entrepreneurial opportunities (e.g., Shane & Venkataraman, 2000).

In our nonprofits sample, the organizational culture aspects seem to have more direct impact on entrepreneurship than the organizational structure and resource aspects. While management may not be able to change organizational structure or to control its resources, they may have more control over organizational culture and management style by establishing, by means of policies and procedures, of receptive conditions for new ideas and the possibility of failure. This should attract skilled and talented volunteers and staff. As Fisher (2004) noted, the maturing of baby-boom business people is a huge potential energy boost for nonprofit and the real question is weather nonprofits are ready for the influx of new talents. Table 2 shows the sample response to the question of how they get involved with current organization. Respondents selected the reason of the working environment (almost 67%) more than other reasons, including organization mission.

Given the diversity among entrepreneurs, perhaps future studies should try to investigate whether certain organizational contexts are more associated with or encouraging a specific type or role and to establish linkages between types and various contexts, on the one hand, and measures of organizational performance, on the other.

Some testable statements that include personal characteristics, organizational characteristics, intrapreneurial types/roles were previously offered to guide future research based on our framework. This study did not measure actual organizational performance. Entrepreneurship was measured perceptually in terms of risk propensity. While this should increase our prediction of the final outcome, it is recommended that future research may need to include both long-term measures (outcomes) in addition to short-term measures (internal perspective). Examples of outcomes include organizational growth (increased revenue and resources, expansion to new location, etc.) and social impact (increased the number of client served, expansion of services, enhance client satisfaction, etc.) (Kaplan, 2001; Alexander, 2000).

It is important to acknowledge certain limitations to this study. The study applies an instrument (IAI) that was based on one firm in the private sector to our sample of many and different types of nonprofits. While the study added the characteristic of employees' participation as another dimension obviously more research is needed to identify more nonprofit-relevant entrepreneurial contexts.

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A LOCATION-BASED ANALYSIS OF SELF-EMPLOYMENT AMONG OLDER PEOPLE

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ABSTRACT

The number of people who are over 60 is growing rapidly. Even though they choose to retire from full-time jobs, many retirees are healthy enough to work and want to remain active. At the same time, retired people often find they would like additional supplemental income without returning to full-time work. One solution is self-employment. This could be especially true in rural areas where it may be more difficult to obtain jobs that suit retirees' needs. This paper examines the proportions of men and women in metropolitan, suburban and rural areas who claim themselves as retired, yet receive income from self-employment.

INTRODUCTION

The median age of the total population is increasing. Accordingly, once the oldest baby-boomers reach age 65 in 2011, the population will begin to age rapidly. The US Census Bureau predicts that between 2000 and 2040, the numbers of American 65 and older will more than double, to 77 million, while the number of adults in the prime working ages of 25 to 54 will increase by only 12 %. (Johnson, 2004, p. 48). By 2030, the proportion of people in the U.S. who are 65 and older is expected to increase from 13% to over 20% (Purcell, 2000).

As the number and proportion of older people is increasing, the traditional practice of completely retiring at age 62 or 65 is also changing. Some companies are encouraging early retirement by offering incentives that entice people to leave their career jobs, even if they would normally have continued to work. If they are active and in good health, many of these people then begin working with another employer or strike out on their own (Quinn & Kozy, 1996; Singh & DeNoble, 2003). This is especially true for retirees who find they need supplemental income. Because they live longer on average than men or do not receive sufficient benefits, women are 70% more likely to spend their retirement in poverty. In the over-50 age group, women make up 60% of the lower-income quartile (Hill, 2002, p. 40). Therefore, adequate income in retirement is more likely to be a an issue for women. This problem may be especially acute in rural areas where fewer jobs are available.

This study examines the proportions of people in rural, suburban and urban locations who are self-employed. The following section provides a background on the aging population that is retired or nearing retirement, and special problems and possible advantages associated with starting and conducting business in rural areas. Data from the March Supplement of the 2004 Current Population Survey are then analyzed by age, sex and location.

THE GOLDEN YEARS

Many people continue to work or return to work after initial retirement simply because they enjoy the activity of work (Sautters, 2005) and/or need supplemental income (Kirchhoff, 2005). Since 2001, the number of employed men over age 55 has increased 20% and the number of employed women over 55 has increased 26.3% (Kirchhoff, 2005). In fact, the proportion of people over age 65 who are employed is the highest in approximately 35 years. Improved health and well-being at older ages combined with increasing prices and an overall drop in the stock market (investments) have encouraged older people to continue working. The proportion of those in the 51-56 age group who say they plan to work after age 65 has increased from 26.3% in 1992 to 39.8% in 2004 (Kirchhoff, 2005), while a survey by AARP found that 80% of the baby boom generation plans to continue working after retirement, primarily because they will need the income (Fetterman, 2005). Working past traditional retirement age is a particularly good strategy for workers who will not receive retirement benefits from an employer (Block, Waggoner & Fetterman, 2005).

One reason these numbers have risen so dramatically is that the baby boom generation is reaching retirement age. This group expects that their golden years should provide opportunities to remain active and try new things, which could include starting a business they have thought about for a long time. In the past, middle-aged and older people have had higher rates of self-employment (Duchesne, 2002; Haider & Loughran, 2001; Karoly & Zissimopoulos, 2004), making the possibility that retiring baby boomers may try self-employment a very real one. In 2002, 5.6 million people over 50 cited self-employment as their primary occupation (Karoly & Zissimopoulos, 2004). Self-employment may be a particularly attractive option for people in rural areas where the choice of jobs is more limited.

SELF-EMPLOYMENT IN RURAL AREAS

The quantity and quality of jobs in rural areas have been seriously affected by problems such as sagging rural farm economies, increased foreign competition, and decreases in rural industries (Lichter, 1989). Economic decline has led many workers to migrate to urban areas, further decreasing the population and purchasing power in rural areas.

Many studies (Fendley & Christenson, 1989; Kale, 1989; MacKenzie, 1992; Mueller, 1988; Osborne, 1987; Small Business Administration [SBA], 2001; Tigges & Green, 1994; Trucker & Lockhart, 1989) show that rural areas are economically disadvantaged due to factors such as low levels of business development and limited work opportunities. Rural women in particular "have been an economically disadvantaged group historically" and face restricted employment opportunities (Lichter, 1989, p. 199, 200).

Several studies have shown that rural development often lags behind that of urban areas in terms of population, buying power, capital, entrepreneurial climate, innovation, support services such as health care, and well-developed electronic and transportation infrastructures, (MacKenzie, 1992; Mueller, 1988; SBA, 2001). Business services such as accounting, banking, advertising, and legal counsel may be difficult to locate, leading to higher fixed costs and greater difficulty competing (Osborne, 1987; Trucker & Lockhart, 1989; Fendley & Christenson, 1989; SBA, 2001). In addition, the merger of small rural banks with larger banks that are less willing to loan funds to small businesses can make it more difficult to obtain financing (SBA, 2001).

MacKenzie (1992, p. 92) states that "rural areas are seen by many as being on the fringe rather than a part of the mainstream of both the economy and society." Overall, the SBA (1999) reports that between 1990 and 1995, all industries did better in non-rural than in rural areas. One reason for this may be that rural companies tend to be smaller and have less income than those in metro areas (Henderson, 2002). Glancey (1998) adds that small business owners in urban areas may be more interested in growth whereas rural business owners may be primarily motivated by lifestyle. Kilkenny, Nalbarte and Besser (1999) state that a business owner may feel successful even with a low income if the quality of life in the community is high.

Indeed, entrepreneurship provides rural residents an avenue for financial improvement and independence without giving up their unique way of life (Tosterud & Habbershon, 1992). Using General Social Survey data, Hout and Rosen (2000) found that the sons of farmers (who naturally are located in rural areas), businessmen and professionals had higher rates of self-employment than did sons of clerical, retail, and manual workers. Clark and James (1992) found the rate of business ownership to be higher in non-metro areas with low populations. Some rural small business owners do not necessarily view their location as a hindrance, and even consider it advantageous (Jack & Anderson, 2002; Robinson, 2001; Tosterud & Habbershon, 1992). A study (Robinson, 2002) comparing business termination rates in metropolitan and non-metropolitan counties found that although business start rates were lower in rural areas, termination rates were equal or even lower in non-metropolitan counties.

Women with families often look to entrepreneurship in order to control their schedules and gain more control over their lives (Arai, 2000; Birley, 1989; Clark & James, 1992; Lombard, 2001; NFWBO, 1998a). This may be especially true in rural areas where there are likely to be fewer child-care options (Jack & Anderson, 2002; Tigges & Greene, 1994). Lichter (1989) concluded that in 1985 one-third of rural women were underemployed, meaning they were not able to find full-time work or a job paying adequate wages. Rural women were underemployed at a rate 38% greater than urban women, and 42% higher than rural men. It has been suggested that skilled rural women would make more money by working in managerial positions for employers, but because these jobs are not readily available or easily accessible, these women are motivated to start and operate their own businesses (Clark & James, 1992; Tigges & Greene, 1994). If women have become self-employed during their prime working years, they made decide to continue with their businesses even after they receive social security.

Self-employment seems to be a desirable an option for non-metropolitan residents despite the economic difficulties. This may become even more so for people who have reached the golden years of life and do not wish to work for a full-time employer, yet want to remain active and receive a supplemental income. This study examines the proportions of self-employed men and women in urban, suburban and rural areas. Special emphasis is given to the over 50 age groups.

METHODOLOGY, RESULTS AND ANALYSIS

Data regarding the number of working-aged self-employed people were obtained via Data Ferret from the March Supplement to the 2004 Current Population Survey and a random subset of the data for the entire nation was analyzed through the use of SPSS. Chi-square analyses were conducted on these data to determine if equal proportions of people in urban, suburban and rural areas were self-employed.

Table 1 presents the overall percentage of working-aged people in urban, suburban and rural locations. Chi-square analysis shows that among both women and men, the differences in the proportions of people in each location are statistically significant and are therefore unlikely to have occurred by chance. With both women and men, rural residents were the most likely to be self-employed, with rural men being 45% more likely than urban an suburban men to be self-employed, and rural women about 40% more likely than urban and suburban women to be self-employed. The proportions of urban and suburban men were equal, while suburban women were slightly more likely than urban women to be self-employed.

Table 1: Percentage of People Who are Self-employed by Sex and Location

Sex	Urban	Sub.	Rural	Chi-square
Men	8.4	8.4	12.2	.000*
Women	6.0	6.3	8.5	.000*

Age	Sex	Total	Self-employed	Urban	Suburban	Rural	Chi-square sig.
Table 2: Self-employed People by Age and Location							
50-54	Both	8183	939	8.8%	9.4%	13.1%	.000*
	Men		587	10.0	11.0	16.6	.009*
	Women		352	7.7	7.5	9.0	
55-59	Both	5590	723	10.0	10.6	14.2	.000*
	Men		446	11.5	11.9	16.3	.931
	Women		277	8.2	9.0	11.8	
60-61	Both	1604	202	9.2	10.6	13.7	.070
	Men		125	12.0	12.4	14.7	.848
	Women		77	6.3	8.6	12.4	
62-64	Both	1420	212	9.1	12.3	16.9	.002*
	Men		135	11.5	14.8	21.1	.947
	Women		77	6.7	9.4	12.7	
65-69	Both	1353	217	15.0	12.6	14.6	.464
	Men		148	21.3	16.7	17.6	.437
	Women		69	8.8	7.7	11.3	
70-74	Both	577	104	21.8	13.4	12.9	.027*
	Men		64	24.7	16.7	9.9	.073
	Women		40	18.1	8.9	17.2	
75+	Both	437	84	12.1	11.8	22.8	.005*
	Men		56	16.1	15.1	24.8	.937
	Women		28	8.1	7.9	19.8	

Because the population of interest was people in or near retirement age, those in age groups younger than 50 were not further examined. People as young as 50 were included because people taking early retirement could be in these younger age groups. In Table 2, the number and percentage of working-aged people is further broken down by age and sex, and the results of chi-square analysis for the entire age group are presented on the line labeled “both.”. In addition, a chi-square analysis examining the proportions of self-employed people (data were filtered to include only those who were self-employed) by sex and location was performed, with the results presented on the line showing data for men.

Examination of the total proportions of self-employed people in urban, suburban and rural locations shows that in 4 out of 7 age groups, rural areas had significantly higher proportions of self-employed people. This trend was evident from age 50 through age 64, with the exception of ages 60-61 when the percentage for rural self-employed residents appeared to be higher, but lacked statistical significance. At age 65, the percentages became more similar overall, with greater differences evident among men. In the 70-74 age group, rural areas actually had the lowest proportion of self-employed people. However, in the age 75 and over group, rural areas again had a much higher percentage. These findings suggests that there are differences in the proportions of people who are self-employed in rural, suburban and urban locations.

Up until age 65, rural women, with the highest self-employment rates among women, tend to have roughly the same rates as urban men, who have the lowest rates until age 65.

In all but the youngest group, chi-square showed no significant interaction between sex and location. Men's patterns varied after age 65, but in all ages, rural women tended to have the highest of women's rates.

Table 3: Comparison of Location Among the Self-employed by Age and Sex

Age	Sex	Urban	Sub.	Rural	Chi-square sig.
50 and over	Men	12.2	12.3	16.8	.000*
	Women	8.0	8.2	11.1	.000*
55 and over	Men	13.6	13.3	16.9	.001*
	Women	8.3	8.8	12.6	.000*
60 and over	Men	16.1	14.8	17.5	.000*
	Women	8.4	8.6	13.3	.000*
62 and over	Men	17.7	15.8	18.6	.275
	Women	9.3	8.6	13.6	.003*
65 and over	Men	21.3	16.4	17.4	.157
	Women	10.8	8.0	14.2	.010*
70 and over	Men	21.3	16.1	17.1	.377
	Women	13.4	8.5	18.4	.015*
75 and over	Men	16.1	15.1	24.8	.140
	Women	8.1	7.9	19.8	.031*

Given these results, the researchers attempted to "work backwards" by beginning with the oldest age group and expanding the pool to include younger groups of self-employed people. For example, while the 75+ age group includes only self-employed people in that age group, the 70 and over age group includes the self-employed in both the 75+ age group and the 70-74 age group. As shown in Table 3, the percentage of self-employed people were compared by location, with women compared to women and men compared to men.

Among men, no statistically significant differences were seen in any of the categories that included age 62 and older. However, the differences among women were evident in all age groups, with rural women always having the highest percentage of self-employed people. This would seem to suggest that as men grow older and assumedly retire, location-based differences are reduced later in life. Rural women, on the other hand, continue to be self-employed at higher rates than their urban and suburban counterparts. In fact, the biggest differences are evident in the oldest groups and the differences decrease as younger and younger people are included in the pool. Given the very high percentages of rural women who are self-employed at older ages, it is possible that these women are starting, or at least maintaining, their businesses as long as possible. It should be noted that the highest age groups in this data file contained very few people, but these findings indicate that is an area that should be investigated in future research.

Another problem with the above data is that is not possible to determine which people are retired and at what age they left work. Table 4 shows the results of a chi-square analysis conducted on a data set composed of people who receive social security because they are retired, yet still receive income from self-employment. This could mean that they have declared themselves retired because they have reached the age to receive social security, even though they continue to work in their own business, or perhaps they receive income from a business that they have passed on to the next generation.

Table 4: Percentage of Retired People Who Are Also Self-employed

Sex	Urban	Sub.	Rural	Chi-square
Men	23.9	17.8	18.6	.145
Women	11.9	9.6	17.0	.007*

Again, differences were not found among men, but rural women were 43% more likely than their urban counterparts and 77% more than their suburban counterparts to be receiving self-employment income in addition to social security. It is important to note that the overall percentages of self-employed people increase dramatically among this group, as compared to the proportions of all self-employed people presented in Table 1. This is logical considering the general rise in self-employment percentages evident as age increases, as shown in Tables 2 and 3.

It was not possible to break these data down by age, so these numbers could include those who have chosen to take social security at age 62 or 65. According to current laws, people who wait until they are 65 ½ before they retire will not have their social security benefits reduced regardless of how much they earn, whereas people who take social security at age 62 have their benefits reduced by $1 for every $2 earned about $12,000 (Block et al., 2005, p. 7B). People who wait until age 70 to claim social security benefits will receive higher benefits than those who claim it at age 65. In turn, the benefits of people who retire at age 62 are reduced even more. People born after 1959 must wait until age 67 to receive full benefits (Block et al., 2005). This system encourages people to continue to work (unless they have retired before age 65). As the age limit for full benefits rises, more people are likely to continue to work well into their 60s.

CONCLUSION

By 2008, the first wave of America's 79 million people in the baby boom generation will reach age 62 when they are eligible to retire and receive reduced social security benefits (Fetterman, 2005). As the numbers and proportions of older people in the U.S. population increases dramatically in the coming years, how people spend their days and support themselves will become more and more important to society. Rising costs along with the increasing number of years that people spend retired mean that older people will need more money in their golden years than did their predecessors. Self-employment may be an important way for seniors to earn supplemental income while not working in full-times jobs for employers.

This is especially true for women, who have longer lifespans in general. A large percentage of women end up in poverty. The results of this study indicate the rural women are more likely than women in other locations to be self-employed. One reason for this may be that rural women, who have higher levels of self-employment than other women at almost all ages, need to keep their businesses because they outlive husbands and need the extra income. It is also possible that they enjoy their jobs and want to continue to work as long as possible. Future research should examine the retirement intentions of self-employed rural residents, especially women, to determine if they are more likely to plan to continue in their own businesses in their "retirement" years.

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THE ENTREPRENEURIAL AUDIT: INNOVATION EFFICIENCY IN THE 21ST CENTURY

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ABSTRACT

An entrepreneurial audit is a comprehensive examination of a firm's entrepreneurial and innovation characteristics. It evaluates the ability to identify and respond to opportunities, create and maintain an "entrepreneurial" environment, analyze the utilization of resources, and understand organizational efficiency to maximize time-to-profits. This corporate entrepreneurial behavior has been shown in repeated studies to improve financial performance.

This entrepreneurial audit uses a qualitative managerial analysis approach to allow for the diversity of executive perspectives and organizational behaviors to be fully encompassed. The audit begins with assessing the fundamental mission, vision, and competence of the corporation. Then, six component areas of an audit are scrutinized: 1) Internal Environment, 2) Entrepreneurial Culture, 3) Starting Points of Innovation, 4) Innovation Process, 5) Team Dynamics, and 6) Resource Allocation. Appendix A contains a summary of the questions that an executive may use to assess a firm's entrepreneurial environment and support for innovative behaviors.

The conclusions of the entrepreneurial audit are an indication of a firm's entrepreneurial momentum and innovation efficiency. This momentum is a framework for the firm's ability to respond to environmental opportunities and threats in the 21st century. The audit summary offers an organization a baseline of innovation efficiency and a strategic tool in which to begin entrepreneurial renewal.

THE ENTREPRENEURIAL AUDIT: INNOVATION EFFICIENCY IN THE 21ST CENTURY

There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Niccolo Machiavelli

ENTREPRENEURIAL AUDIT INTRODUCTION

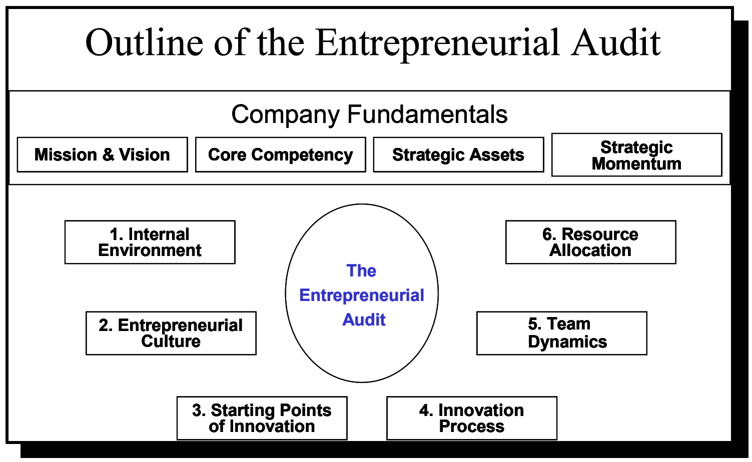
In the global markets of the 21st century, businesses in pursuit of sustained competitive advantage are finding that lower costs, higher quality, and improved customer service are not enough to maintain their competitive edge. As the pace of product, service, and process innovation increases, companies must be better tuned to compete in their own fiercely competitive industry. They must be faster and more flexible, aggressive and more innovative in order to maintain their competitive edge…they must be more entrepreneurial.

One of the more bewildering business outcomes is why certain companies continue to produce new products and process innovations as a matter of practice-3M, General Electric, Disney, Intel, Sony for example, while others struggle to produce even a glimmer of originality. Most corporate executives would acknowledge that their business has untapped potential in the new competitive environment, and yet, few seem to excel at planning for innovation and using the entrepreneurial process as a key strategic business asset. While several notable books have been authored on this topic, including Fifth Discipline (Senge), Innovator's Dilemma (Christensen), Leading the Revolution (Hamel), and Innovation (Kanter) to aid top management, most corporate environments remain geared to preserve the status quo.[1]

If Post-It® Notes, Pentium® 4 Microprocessors, or Playstation® innovations are perceived to be valuable product offerings to customers and the income statements of the firms that create them, then understanding entrepreneurial environments should be a priority. An Entrepreneurial Audit assists in assessing a firm's environment for innovation efficiency and time-to-profit within new ventures. Crucial to sustaining competitive advantages is a method for inspecting the entrepreneurial-ness of an organization. In the end, management must understand the environment the firm has created for itself as it regards fostering innovation and new ventures; an environment that generally allows for a short window of opportunity and wealth generation.

The fact that an entrepreneurial posture produces superior financial results has been illustrated repeatedly (MacMillan & Day 1987; Miller & Camp 1986; Morris & Sexton 1996; Wiklund 1999, Zahra and Covin 1995). While the goal is obtainable for some, understanding where you are today in the process of becoming more entrepreneurial is the purpose of this article. This entrepreneurial audit offers a qualitative approach to discern a firm's entrepreneurial and innovation characteristics. While there are quantitative instruments available to access entrepreneurial posture or intensity (Hornsby, Kuratko, and Zahra 2002; Morris and Sexton 1996), some executives may find it futile to attempt to distill a firm's entrepreneurial assessment into a quotient. In fact, using a questionnaire, or a few metrics already gathered as a matter of business practice, may not be truly taking the pulse of a firm's ability or inability to change itself and respond to market shifts and opportunities.

Thus, this article will offer one method for comprehending an organization's entrepreneurial norms and it begins with assessing the fundamental mission, vision, and competence of the corporation, then six components of an audit are scrutinized: 1) Internal Environment, 2) Entrepreneurial Culture, 3) Starting Points of Innovation, 4) Innovation Process, 5) Team Dynamics, and 6) Resource Allocation. The Entrepreneurial Audit will pose questions for each component section. Appendix A contains a summary of these questions. Figure 1 outlines each of the inputs that must be cohesive in order to excel at innovation efficiency.



ENTREPRENEURIAL FUNDAMENTALS: VISION, ASSETS, AND MOMENTUM

The entrepreneurial audit begins with assessing the fundamentals of the corporation, its mission and vision, strategic assets, and strategic momentum. For an organization to succeed in today's ultra-competitive global environment, it is essential to understand the strategic capabilities and areas of strengths. Companies continually have a multitude of innovation ideas for management to evaluate. The entrepreneurial potential of the company is closely aligned with the fundamentals of the company. Understanding these fundamentals is the first step in the entrepreneurial audit process.

The company's mission and vision set a direction for your organization that is a central point for all strategic decisions, both for current business and new innovation. What is the five-year vision of your organization? Can your organization articulate the role innovation plays in that vision? Does it match? The mission defines where the company is headed, while vision describes what it looks like when you arrive. When potential new innovations are aligned to the company mission and vision, the organization is in a better position to support the project to make it successful. Corporate antibodies and barriers to success are lessened or removed altogether.

Strategic assets are those resources the organization relies on to create current revenue flow. They are also the assets the organization relies on to engage a new opportunity and are the genesis for sustainable competitive advantage. Can you quickly list three of your corporate strategic assets? How does this list of new opportunities map to the strategic asset list?

As an example, Coca-Cola's strategic asset list would include their secret cola formula, their brand, diverse beverage and food lines, and worldwide distribution network. At Disney Imagineering Studios ideas are strategic assets. There are several fully developed, but dormant, concepts on the Disney Imagineering Studio shelves regarded as valued assets. In fact, they are stored on the lower shelves so they can be easily uncovered time and again for inspiration (Jones 1996).

Momentum is a force that can assist overcoming many uphill battles in the realm of innovation. Offering impetus and direction, momentum carries customers and discovery to new heights. Intel Corporation's 34-year history of strategic momentum in silicon innovations has led to eight significant market moving microprocessor cycles, from the 8086 through the Pentium® 4 microprocessor. Intel is rewarded with 75% of the global market share and is accepted as the standard of today's personal computer industry. Can you easily identify the top two areas of your business that have market or technology momentum?

INTERNAL ENVIRONMENT: CAPABILITIES, STRUCTURE, AND COMPETENCIES

The Entrepreneurial Audit facilitates the process to identify the capabilities, structure, and competence of a company as they relate to entrepreneurial potential. These elements provide the internal foundation for entrepreneurial and new innovation effectiveness of a company. The key is to understand how engineering, marketing, and operations interact to create and deliver new opportunities.

Capabilities of the firm are the means by which the objectives of the organization get accomplished; it is a matter of matching an organization's strength to environmental opportunity. Capabilities can be the skills or professional attributes of the various departments, the size or capacity of the various functional departments (e.g., marketing, engineering, etc.), and the experiences and track record of the departments. To launch the 2002 Envoy at General Motors, an entirely new SUV vehicle, required not just the standard new product development steps. The intelligent engineering design, the manufacturing ability, and factory capacity allowed GMC to produce a refreshing and innovative SUV with such excellence that it won Motor Trend's 2002 Sport/Utility of the Year.

Organizational structure is a mechanism that can either help or derail entrepreneurial endeavors. People, communication, and ideas are built to support innovation, yet they can also interfere. The devastating effect of corporate silos stifles breakthroughs. Intel Corporation uses a multi-discipline Product Life Cycle (PLC) team approach. One such example is the Communication and Internet Server Division (1999-2000) that used the multi-discipline PLC team structure to create a market-leading 1U rack server for the Internet data center market. The functional departments, marketing, engineering, operations, and manufacturing, have specific roles within the PLC process for new product development. Those roles are defined within the PLC structure for the objectives of the project to be accomplished. The specific objectives for this project were: 1) robust product features, 2) flexible configurations, 3) low material cost, and 4) gain time-to-market advantage. The PLC cross-discipline team applied the PLC process and utilized the mechanisms to organize the project and meet the milestones throughout the development process to launch the new product successfully in the spring of 2000.

The core competence of your organization is regarded as the cornerstone of entrepreneurial strategy. It is the combination of capability and structure of the company. A firm that desires to continually maximize its use of resources for new innovation opportunity must understand how core competency relates to entrepreneurial efficiency. It is this efficiency that indicates where it can excel, and conversely, where the firm cannot and should enter. Many firms fail to create lasting entrepreneurial value simply because they venture outside their core area of competence (Zook and Allen 2001). What is your company's core competencies? Does everyone in the company understand the firm's core competence as it relates to innovation?

Toys-R-Us understands their competency as toy merchandising in the children's retail market. The successful expansion into children's clothing allowed them to use their expertise to organize this new venture, select styles and trends for the stores, and to market effectively to the target audience - parents (Block and Macmillan 1993).

ENTREPRENEURIAL CULTURE: INNOVATIVENESS, RISK TAKING, PROACTIVENESS

An entrepreneurial culture often starts at the top. When former 3M CEO and scotch tape inventor William McKnight broke his leg, he found plaster casts to be a heavy and tiring technology. 3M scientists acquired a technology for synthetic materials that were lighter and stronger than plaster. Instead of accepting six weeks of drudgery, this action-oriented "can do" culture resulted in a fiberglass-reinforced synthetic casting tape that is widely used today.

Within the firm, innovativeness, risk taking posture, and proactiveness will directly affect the capacity to be creative and entrepreneurial. Do the underlying beliefs and assumptions that employees have regarding their conduct and expectations (i.e., your culture), support original thought, calculated risk, and action? These are the firm behaviors that foster change and produce new opportunities. Corporate entrepreneurship is not determined by desire, but by organizational culture and action.

Innovation emphasizes research and development that leads to new products or new processes. An innovative culture seeks unusual or novel solutions to problems, supports technical leadership, and covets brainstorming as much as cost savings. While most organizations claim to be innovation-oriented, few actually use measures to gauge innovation; rather, they concentrate on optimization. What metrics does your organization use to measure entrepreneurial innovation?

Risk taking is a willingness to pursue opportunities boldly and aggressively, but not recklessly. The individual willing to move forward when others are doubtful or unable to see the potential are those supporting an entrepreneurial culture. These people, or even committees, are willing to explore risky growth opportunities, make necessary decisions despite uncertainties, and be aggressive in responding to competitors. This posture is sometimes in short supply because few managers are fired for neglecting to pursue an opportunity when compared to those who do not meet this quarter's numbers.

Proactiveness is concerned with implementation and taking determined action to bring an entrepreneurial opportunity to realization. An idea can gain support from 10 people and then get derailed by just one individual. But action, especially early wins with regard to an opportunity, is more difficult to scuttle. Thinking and being innovative is necessary, but hardly sufficient. Champions move quickly past the identification of opportunity to the implementation of their innovative concept. A proactive culture creates an internal strategy, drafts resources, and outlines milestones while others are still at the drawing board. How many unsolicited business plans does your CEO receive from managers each year? Do you consider your culture proactive, reactive, or unresponsive?

STARTING POINT OF INNOVATION: INFORMAL, FORMAL, AND CUSTOMER

The genesis of new innovation is of vital interest to an audit, and an organization's health. Domains that can be identified as breeding grounds for worthy ideas must be nurtured and cultivated. Where is the birthplace of your organization's new business ideas? Areas of particular interest to an audit include informal, formal and customer mechanisms to foster innovation.

Many organizations have informal methods for introducing ideas for products or new processes. Everyday, people get together at lunch and discuss various topics, but often wind up talking about potential inventions that challenge their wisdom and invigorate them personally. How often do you see sales, marketing, engineering, or manufacturing people sitting together at lunch sharing the brown bag experience? The outcome is the exploration of thoughts that, when coupled with ingenuity, creates new products. Another informal method to disperse valuable ideas is the use of a suggestion box (most currently suggestion e-mail). The utility of this approach varies widely depending on the perception of what is actually done with the input.

Some of the more entrepreneurial companies obtain opportunities by offering a more formal approach, while still inviting everyone's participation. Are all your employees offered a forum where they feel invited, if not obligated, to submit innovative ideas? Some firms have processes already in place; Disney has the Gong Show, Texas Instruments it is the IDEA program, and Royal Dutch/Shell offers the "Game Changer" program.

Shell allocated $20 million to invest in employee-generated ideas. During a three-day innovation lab, the ideas were coached, financial plans developed, and crisp 10-minute presentations assembled. Funding ranged from $100,000 to $600,000 in 1999 and of Shell's five largest growth initiatives, four had their genesis in the Game Changer process (Kanter 1983). The IDEA (Identify, Develop, Expand, and Action) initiative at Texas Instruments opens the door for proposals submitted to one of forty worldwide IDEA representatives with an immediate $25,000 with a stroke of the pen. Approximately $500,000 to $1 million is spent on this program annually to fund innovativeness.

The 'Gong Show' at Disney occurs three times each year and invites employees to pitch film ideas to senior executives. Colleagues are used to first critique the business concept and presentation, and then they unleash their idea upon management. Approximately 40 ideas are shared each session and feedback, positive and negative, is shared immediately (McGowan 1989). Again, the purpose for uncovering innovation starting points is to identify potential areas or programs that cultivate discovery and warrant investment.

The customer is an integral starting point of innovation. Customers often instigate innovation, set market timing, and confirm the "customer value proposition" of your product's success or failure. What mechanisms does your firm have to direct customer feedback to the appropriate product group?

The Customer Value Proposition:
Customer Value = Customer Benefit - Customer Cost

Expectations of your company by the customer also set a pace for innovation in products, services, and processes. The customer dynamics in the marketplace determine modifications to your organization's strategy and structure. For example, a rapidly expanding product line, such as consumer electronics DVD players, will require Sony to plan for appropriate product cycling, staffing, and service infrastructure. Customer's expectations, perceptions, and reactions to your new innovations are crucial to the next generation of products or services.

A good example of customer based innovation is "Build-Your-Own" PC offered by many of the leading personal computer companies (e.g., Dell, Hewlett-Packard, etc). The customer is provided a kiosk at a retail store or a "configure to order" web site for them to work through selections and create a tailored order for their exact needs, peripherals, performance, colors, etc. Ultimately the customer determines if you are innovative and what financial success you will have in the market place.

INNOVATION PROCESS EVALUATED: EFFICIENCY, SUCCESS, AND FAILURE

New innovation revenue is the life-blood of any healthy organization - especially in highly competitive industries. At 3M for example, the corporate financial planning strategy is to have 30% of all revenue over the past four years be new innovation revenue. If a new venture within the organization can shave one-third off the development cycle, how much is that worth to your organization? There should be no reasonable argument against better time-to-money and time-to-profit efficiency, except for when quality or safety is compromised. What is your average time-to-profit?

Innovation cycles can vary widely from industry to industry. Pharmaceutical companies research and test drugs for years and General Motors may take five years to develop a new car. Contrast that by Sony's rapid prototyping processes that can test a new product concept within weeks and have it to market within months. Clearly, the type and pace of successful innovation varies by industry, and changes by new market dynamics as well, e.g., the Internet. However, if a relative and significant percentage can be shaved off your development cycle, the payback is clear. The Entrepreneurial Audit endeavors to find the bottlenecks for time-to-profit efficiency. Do you have a mechanism to gauge the profit timeline and adjust the performance of your organization given specific profit goals? What are the best practices and benchmarks in your industry to align your organization to compete?

Efficiency is one element; continued learning from mistakes is also paramount. A vital element to future new venture success is recognizing what has worked and that has not from a historical innovation perspective. Successes can be modeled as BKM's (Best Known Methods) for future ventures. Seasoned members of the successful team can participate in future ventures to strengthen the new organization and improve the learning curve. How does your firm cross-pollinate experienced employees for future success of new ventures? Beyond success and failure is the documentation of the venture's key discoveries so organizational learning can occur. Is the management of a current successful or failed venture required to document experiences for the corporate knowledge bank?

Failures are readily and quickly ignored or buried in obscurity sometimes due to politics and the embarrassment of the failed endeavor. Not so, at General Electric. Failure is a key learning tool for the organization. "Intelligent failures" are supported by the organization as key learning experiences to be recognized. The Halarc, an innovative new light bulb intended to last ten times longer than a standard bulb using a fraction of the energy, was a large gamble at $50 million development investment. However GE quickly learned consumers were not ready to pay $10.95 for a "revolutionary" new light bulb in the late 1970's. The project failed. But, instead of "punishing" the Halarc team, GE celebrated a great try by handing out cash awards and promoting several Halarc team members into new jobs. GE wanted everyone to know that it was okay to take an intelligent "big swing" at a new innovative product, and miss. Does your organization offer "get out of jail cards" for those who risk and fail at a venture?

TEAM DYNAMICS: CHAMPION, SPONSOR, REWARDS

Venture capitalists understand that ideas are a dime a dozen, that only execution counts. So how does an organization execute? It is usually through a team of motivated individuals with a leader at the helm and a senior advocate eliminating obstacles. Effective entrepreneurial teams generally have a champion, a sponsor, and rewards to rouse the innovative spirit.

Champions are people who encourage projects during critical stages, keep decision-makers and sponsors informed, lead team members, and enthusiastically promote the project at all levels of the company. These champions excel at forgoing alliances with others, internal and external to the firm. One report noted that 90% of raw ideas actually never advanced beyond the idea generator's desktop (Howell and Shea 2001). Thus, understanding the market opportunity, envisioning the resources and steps required to produce outcomes, and building support via communication are the coveted people who move ideas from a desktop to a marketplace. Do you recruit and retain future champions when hiring? What percentage of your organization is filled with potential champions?

To succeed, champions need someone to provide cover on occasion. This person, called a sponsor, provides clout, occasional protection, marshals resources, and offers coaching in an effort to nurture an idea until it gains momentum. Sponsors offer advice and imitate knowledge on how to be effective within the broader organization. Without this advocate, success can be elusive. In short, a lack of internal direction and support is highly detrimental to success. Art Fry, of Post It Notes® fame, and Ken Kutaragi, the inventor of Sony's Playstation®, both had sponsors to support their successes. From an audit perspective, look at your senior managers and see who specifically has the interest and the talent to mentor an innovation-minded team. Currently, whose people are the most entrepreneurial on an ongoing basis?

The final part of the team dynamics is remuneration for risk taking, extra work, and intellectual creativity. Many people seek financial rewards; some seek power, status, or the freedom that innovation brings to them personally, thus remuneration is as varied as the individuals involved. While most accept that personal financial wealth cannot match that of the outside entrepreneur, offering something for fomenting improved firm performance is essential. One must review the firm reward system to understand if the compensation offered is motivating people beyond their wildest dreams. How does your organization reward innovative people?

IBM named its first eight Fellows in 1963 in recognition for prominent technical accomplishments. This status entitled the recipient to five years of support to pursue novel or innovative opportunities. Other reward avenues to motivate might include on-the-spot awards, paid vacations, innovator of the month awards, bonuses tied to revenue generation, or outright shares of stock. Not all risks to the company are the same. Are your rewards the same? It is important to note that the creativity and passion that drive the team is often internal to the individual and thus difficult to finesse. The bottom line is to understand what truly motivates your people to pursue their ideas and passions.

RESOURCE ALLOCATION: STRATEGIC, TRADITIONAL, SKUNK WORKS

For entrepreneurial activities and innovation to occur within the firm, resources must be made available in some manner. How does your firm earmark or attract resources as it regards supporting new products? There are generally three approaches to appropriating resources to new endeavors: strategic speculation, traditional new product development, and skunk works projects.

Strategic speculation is investment in products and innovations believed to hold great promise for the company during the next year or two. Thus, these projects warrant special attention and are offered unparalleled access to equipment, people, and financial resources. Budgets for these endeavors are often set at the highest reaches of the organization through a special disbursement or perhaps part of a new venture budget. Pioneering firms digging at the frontiers of their respective business sectors are constantly looking for new innovations to secure their future. Banking on new significant innovation is key to this strategy.

Traditional new product development is a mixture of marketing, engineering, and management working together to craft new goods, services, or processes. Lines of responsibility are usually clearly drawn and boundaries are inferred from historical norms. This approach for resource allocation generally is more structured, having been the traditional method for some new products brought to market. Budgets are set during the annual process and widespread communication regarding the product is generally the custom in this approach.

Skunk works projects start as small enterprises and individuals are often left to their own devices to procure the resources required. 3M's Post-It Note® is often considered the pinnacle of skunk works success. Under this system, individuals scrimp, scrounge, or "borrow" people, assets, or facilities to create a new product for the organization. Often, this approach has zero financial resources earmarked at the start. Thus, individuals may toil with their ideas during regular business hours, but nights and weekends are when progress is achieved since they are not working on officially sanctioned projects. The counterculture mentality of skunk works initiatives often put them at odds with others in the organization, but to these people, another's contrary opinion should not prevent progress. What are skunk works projects within your firm right now?

In short, there is no hierarchy of resource disbursement; no one approach is necessarily better than the others. But if multiple methods are available for stimulating innovation efficiency and entrepreneurism, the more likely desired results will be obtained. From an audit perspective, the bottom line is which, if any, of the three resource methods does your firm offer to support entrepreneurial enthusiasm?

CHALLENGES OF AN ENTREPRENEURIAL AUDIT

The obstacles to conducting an Entrepreneurial Audit are the same as those faced by firms attempting to be innovative by developing new products and services. Most stumbling blocks are not linked to environmental conditions or even technological challenges related to the product itself. Most impediments are internal to the firm with people frequently at the top of the list (Morris, Davis, and Ewing 1988).

Table 1 offers a list of factors that have been found to constrain the entrepreneurial spirit in organizations. Resistance to change, lack of motivation, fear of failure, resource constraint, and corporate structure were the main constraints to entrepreneurial behavior. Moreover, the mere act of asking questions or seeking opinions in an audit is enough to make many employees nervous or outright fearful, especially those who covet the status quo. Thus, confidentiality must be guaranteed and perhaps independent auditors should be used. Employees often perceive an audit as an opportunity to unload negative feelings about the organization or specific individuals. The auditor can learn a great deal from this information but must protect everyone's interests while remaining highly determined to grasp the reality of the climate.

Table 1: Factors that Impact Corporate Entrepreneurial Spirit

1.	Absence of innovation goals
2.	Resistance from others
3.	Top management support
4.	Resource availability
5.	Firm's posture towards failure
6.	Reward system does not promote such behaviors
7.	Rigid formal planning systems
8.	Politics and turf protection

Adapted from Morris and Trotter (1990)

The Entrepreneurial Audit provides any organization the opportunity to critique itself in a practical and open process. Management has an internal and an external option for conducting an

Entrepreneurial Audit no matter which organizational situation they find themselves. An internal self-diagnosis approach of auditing entrepreneurial efficiency relies on three elements for success; 1) credibility, 2) an unbiased audit team, and 3) a confidential approach utilizing the Entrepreneurial Audit structure. Alternatively, a professional consultant with expertise in entrepreneurial organization process and innovation efficiency can be utilized if there is potential for significant turf protection or emotion from the organization. Employees should be encouraged to participate in a candid, active, and involved way. If anonymous feedback methods will stimulate increased participation, then offer a means to conduct the audit in confidence.

ENTREPRENEURIAL AUDIT SUMMARY

In review, the objective of the Entrepreneurial Audit is to evaluate how to create a more efficient, innovative, and competitive organization. Conducting an Entrepreneurial Audit within the six areas described is an important declaration to managers, employees, and customers that the organization values efficiency, new innovative ideas, and competitiveness. It states to the organization that its interest lies in progressing and improving opportunities for invention. It also states that efficient execution is crucial for a sustained competitive advantage. The organization will begin to understand that new innovation, when done efficiently, will have a positive impact on the bottomline, thus, creating additional opportunity. Table 2 contains a summary justification for conducting an Entrepreneurial Audit.

Table 2: Entrepreneurial Audit Justification

1.	Provides a thorough critique of your organization's competitiveness via a high-payback (ROI) exercise.
2.	Asks probing questions about the organization effectiveness to stimulate creativeness.
3.	Moves people off the status quo tendencies, which are a detriment in today's competitive environment.
4.	Generates an understanding of how much your organization is acting like an innovative-minded team.
5.	Evaluates if the competition is out-innovating you.
6.	Defines the bottlenecks to improve innovation process.
7.	Prepares your organization for new opportunities.

An Entrepreneurial Audit will allow you to clearly understand the strengths and weaknesses of your organization as it relates to innovation efficiency. The bottom line is that entrepreneurial posture and firm performance have been positively linked by several studies over the years, irrespective of past performance. Entrepreneurial firms do better overall, understanding a firm's entrepreneurial innovation efficiency begins with this entrepreneurial audit process.

The conclusions of the Entrepreneurial Audit are an indication of a firm's entrepreneurial momentum and innovation efficiency. This momentum is a framework for the firm's ability to respond to environmental opportunities and threats in the 21st century. The audit provides strategic tools in which to begin entrepreneurial revitalization.

ENDNOTE

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APPENDIX A
Sample Entrepreneurial Audit Questions Summarized

I. Entrepreneurial Fundamentals: Vision, Assets, and Momentum
- How does your organization foment, analyze, and prioritize a new opportunity?
- What is the five-year vision of your organization? Can your organization articulate the role innovation plays in that vision? Does it match?
- What are three of your corporate strategic assets?
- Where in the organization are your top two areas for market or technology momentum?

II. Internal Environmental: Capabilities, Structure, and Competencies
- What resources and abilities can you immediately count on if a new business opportunity arises?
- What structures are in place for engineering, marketing, and operations to interact to create and deliver on new opportunities?
- How do you define your core competency?
- What percentage of your employees understand the firm's core competence and how it relates to innovation?
- How does your list of new opportunities map to your core competency?

III. Entrepreneurial Culture: Innovativeness, Risk Taking, Proactiveness
- How do the underlying beliefs and assumptions that employees have regarding their conduct and expectations (i.e., your culture) support original thought, calculated risk, and action?
- Does your organization use metrics to measure entrepreneurial innovation?
- How many unsolicited business plans does your CEO receive from managers each year?
- Do you consider your culture proactive, reactive, or unresponsive?

IV. Starting Point of Innovation: Informal, Formal, Customer
- How are customers invited to define the next generation of your product?
- Where is the birthplace of your organization's new business ideas?
- Who are the most creative people in your firm?
- Are all your employees offered a forum where they feel invited, if not obligated, to submit innovative ideas?

V. Innovation Process Evaluated: Efficiency, Successes, Failures
- What can the organization do to allow venture managers more time to pace their venture team for market delivery versus jumping through excessive internal hoops?
- Does your organization offer "get out of jail cards" for those who risked and failed at a venture?
- How does your firm cross-pollinate veterans of previous ventures into key roles for new ventures?
- What is the documenting process for a successful or failed venture?

VI. Team Dynamics: Champion, Sponsor, Rewards
- How do you recruit and retain future entrepreneurial champions?
- What percentage of your senior managers have the interest and talent to mentor an invigorating team?
- What mechanisms does your organization use to reward innovative people?
- To what degree are risks and rewards correlated with different ventures?

VII. Resource Allocation: Strategic, Traditional, Skunk Works
- How does your firm earmark or attract resources as it regards supporting new product ventures?
- Which of the three methods (strategic, traditional, skunk-work) does your firm offer to support entrepreneurial enthusiasm and innovation?
- What innovation is being funded at a strategic level as to be considered your firm's future?
- Can you identify one or two skunk works projects underway somewhere in your organization?

A PROFILE OF HUMAN RESOURCE PERSONNEL AND PRACTICES IN MICRO, SMALL, AND MEDIUM SIZED ENTERPRISES

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ABSTRACT

Human resource management (HRM) practices, support systems, personnel profiles and desired education, and credit methodologies were examined in micro, small, and medium sized enterprises (MSMEs). The investigation is an exploratory descriptive study employing a discussion of the results of a questionnaire. The results suggest that human resource management practices, support systems, and HRM personnel profiles impact HRM education needs. The research findings demonstrated that MSMEs perform a wide variety of basic HRM practices internally, utilize a flexible informal style of management, require employees to execute HRM duties along with other job responsibilities, and typically employ inadequate support systems. However, a majority of the firms are adopting management information system processes that may advance the concept that MSMEs are using technology instead of HRM personnel. HRM personnel in MSMEs have multiple years of HRM experience, although the data would proport that improvement in HRM professional expertise and education through succinct seminars or web-based courses that result in certification or continuing education credit is indicated.

INTRODUCTION

Are people our most important asset? Will businesses seek sustainable competitive advantage through sophisticated human resource management practices? Large organizations have long recognized human capital as part of the mix for superior performance as well as national economic growth (Price, 2004). Entrepreneurs have always been dependent on human capital when compared to financial or physical capital (De Kok, 2003). Micro, small, and medium sized enterprise (MSME) success will depend on recruiting and retaining human capital.

Human capital has become the new buzzword for companies in today's knowledge-based economies. Labor shortages for qualified employees and the need for highly skilled employees to fuel this knowledge-based economy has become apparent (Audretsch and Thurik, 2000; Audretsch and Thurik, 2001; Audretsch et al., 2002). Small and medium sized enterprises (SMEs) form an important component of our modern knowledge-based economies, however SMEs are very divergent from large enterprises along many considerations (De Kok, 2003).

Research on HRM and performance illustrates that HRM practices can impact performance which further strengthens the need for HRM investigation (Boselie et al., 2001; Boselie, 2002). Due to the importance of SMEs to the economies of the world, it is somewhat discouraging and problematic to discover the dearth of SME research concerning HRM practices in SMEs (Heneman, 2000). Therefore, what HRM advice can be offered to SMEs, "not as much as we'd like" (Katz et al., 2000). The investigation of HRM personnel and practices in MSMEs is divided into the literature review; data collection and methodology; results and discussion; implications; limitations and future research directions; and the conclusion.

LITERATURE REVIEW

A review of human resource management related literature for the past twenty years repeatedly indicates that some scholars realize the importance of the role of HRM practices in SMEs (Hornsby and Kuratko, 1990; Deshpande and Golbar, 1994; Heneman, 2000; Katz et al., 2000). Research findings have demonstrated that managers of small firms have ranked personnel management as the second most important management activity behind general management activities (Hornsby and Kuratko, 1990). From information presented in the literature; the extent of the utilization of traditional human resource management functions; outsourcing trends; the level of support systems; the education, experience and expertise of the employee(s) responsible for human resource actions; and human resource education requirements in MSMEs is substantially lacking. As a result, the goals of this study are as follows:

Goal One (G1) – Identify the breadth that traditional human resource practices are currently being utilized by MSMEs and determine whether these practices are performed by the firm internally or outsourced. (This finding may impact the level of education, experience or expertise required of the staff in MSMEs).

Goal Two (G2) – Ascertain the support MSMEs provide to HRM as reflected by the number of full and part-time employees assigned to human resource activities and the use of support systems such as formal management information systems (MIS), employee handbooks, legal advice, and communication processes employed by the firms' HRM personnel. (This finding may directly or indirectly effect the HRM education needs of MSMEs.)

Goal Three (G3) – Confirm the level of education and experience of the human resource workforce, and establish the employees self-perceived level of expertise in selected human resource practices. (This data alone may have the greatest impact on HRM education needs in MSMEs.)

Goal Four (G4) – Discover how human resource practitioners in MSMEs would choose to receive human resource related education. (This finding was forecasted to be influenced by the data developed from G1, G2, and G3.)

The examination of human resource management in SMEs is a recent event and almost non-existent when directed toward micro enterprises exclusively. HRM in micro enterprises may be primarily composed of the social skills and/or leadership styles demonstrated by the entrepreneur or manager instead of various HRM practices utilized by the HRM department or HRM personnel (De Kok, 2003). The deficiency of information concerning human resource management in SMEs is problematic for theory, research, and practice (Heneman et al., 2000).

Empirical data has generally demonstrated that smaller organizations do not have formal HRM departments nor do they adopt traditional HRM paradigms or practices (Barron et al., 1987; Hornsby and Kuratko, 1990; Heneman and Berkley, 1999; Katz et al., 2000; De Kok and Uhlander, 2001; De Kok et al., 2003). Research to date has concentrated on SME determinants of HRM practices, such as: firm size (Ram, 1999; De Kok and Uhlander, 2001; De Kok et al., 2003), sector of the economy the firm competes (Curran et al., 1993; Mowday, 1998; Ram, 1999), business strategy employed (Schuler and Jackson, 1987; Lengnick-Hall and Lengnick-Hall, 1988; Youndt et al., 1996), family firm governance (Fiegener et al., 1996; Aldrich and Langton, 1997; Cyr et al., 2000; Reid and Adams, 2001; De Kok et al., 2003), high performance HRM practices (McEvoy, 1984; Barron et al., 1987; Hornsby and Kuratko, 1990; Kotey and Meredith, 1997; Heneman and Berkley, 1999; Boselie et al., 2001; Boselie, 2002; De Kok, 2003), recruitment (Aldrich and Langton, 1997), training and development (Hendry et al., 1991; Koch and McGrath, 1996; Westhead and Storey, 1997; Westhead and Storey, 1999), performance appraisals (Jackson et al., 1989), specialists employed (Jackson, et al., 1989; Bacon et al., 1996; Wagner, 1997; Heneman and Berkley, 1999) and the development of a business plan (De Kok et al., 2003).

Despite these determinants as well as others an escalating body of research findings would conclude that smaller organizations have less formal HRM practices, but variation among these practices is fairly dispersed (De Kok and Uhlander, 2001). Hill and Stewart (1999) demonstrated this variation by the different levels of the HRM taxonomy of practices and sophistication exhibited by smaller firms. Hill and Stewart (1999) also suggest that smaller businesses need flexibility and less formality to compete in an environment of uncertainty. Hornsby and Kuratko (1990) discovered that HRM practices were more sophisticated than predicted among smaller organizations. Deshpande and Golhar (1994) illustrated that HRM practices in small manufacturing companies were as sophisticated as large organizations. Hendry, Jones, Arthur and Pettigrew (1991) would argue that poor planning for the future or inadequate resources is the rationale for informal HRM practices.

Due to their limited size and resource availability many small firms can not justify full-time HR professionals (Klass, 2000). Cook (1999) and Hirschman (2000) propose that a growing trend for small businesses is to outsource HRM activities to professional employer organizations. The need to outsource HRM functions can be partially explained by the growing complexity of human resource issues and the consequent need for professional expertise (Greer et al., 1999). The SME literature does not specifically address the suggested trend of outsourcing for micro enterprises or the level of education, experience and expertise of the individual or individuals who practice HRM in MSMEs.

Trying to summarize and provide generalizations of the prevailing research regarding HRM practices of MSMEs is difficult. Generalizations are hindered by differences in definitions for micro, small, and medium sized enterprises as it relates to the number of employees and other factors. Furthermore, the definition of MSMEs varies between countries. Problematic for HRM practices are the descriptions for determinants such as "best practice," "high performance," "sophisticated," "professional" and "formal." Research thus far would not substantiate either a best practices or a contingency approach to HRM practices in SMEs (De Kok et al., 2003). Information focused exclusively on HRM practices and personnel in micro enterprises is almost nonexistent. Accordingly, the goals of this research investigation are to extend the knowledge about HRM by developing or confirming information related to HRM personnel and practices employed in MSMEs.

DATA COLLECTION AND METHODOLOGY

How do MSMEs manage their employees? The focus of this investigation is on developing a profile of human resource personnel in MSMEs, the HRM practices performed by the personnel in MSMEs and HRM educational needs. Consequently, the investigation is an exploratory descriptive study employing a discussion of the results of a questionnaire. The rationale for this focus is due to the inconsistency discovered by Heneman, Tansky and Camp (2000) between the concerns of small and medium sized enterprises and human resource researchers.

The data for this study was collected as a comprehensive research project of human resource personnel and practices in micro, small, and medium sized firms. The comprehensive research project entailed developing a questionnaire, pilot testing the questionnaire, and mailing 3,073 questionnaires to businesses. A cover letter requested that the person responsible for human resource practices, functions, and activities complete the instrument. A follow-up telephone communication was performed to randomly selected businesses to increase the response rate. Most of the survey area is rural but contained one SMA with a population of approximately 170,000. The mailing list utilized was provided by the local Better Business Bureau that serves the area and included both members as well as non-members of the bureau. Of particular interest is the large rural component of the survey respondents. The European Commission's (EC) definition for micro, small, and medium size enterprises is based upon several criteria, but employee size was the single criteria of the EC used for this study. To be classified as an MSME by the European Commission, an enterprise must satisfy the following criteria for the number of employees: micro 0 - 9, small 10 - 49, and medium 50 - 249 (McQuaid, 2003). The second criteria applied in this research investigation only allowed firms that are considered independent and not functioning as a subsidiary of a larger organization to comprise the sample. One hundred and forty-one respondents successfully returned the completed instrument and met the requirements of size and independence.

The questionnaire contained six major divisions: 1) firm demographic data, 2) human resource management practices and functions, 3) human resource management personnel demographics, 4) personal data about the primary HRM staff, 5) perceptions of HRM expertise by the principal HRM employee(s), and 6) preferences for sources of education in human resource topics. Demographic data included size as measured by the number of employees; type of business such as retail, service, and so on; whether the firm was independent or functioning as an extension of another organization (this allowed for a check of independence); and if the organization was partially or completely unionized.

Respondents were asked to indicate whether a variety of human resource practices were performed by the organization, outsourced, or not performed. If the MSME outsourced certain practices or functions, the participant was to estimate the percentage of the practice that was outsourced. The practices or functions were grouped into four categories: staffing, training and development, employee evaluation and reward, and employee maintenance. Each of the four categories was divided into specific practices with a total composite of seventeen separate activities. The sample was queried about the use of formal communication methods, employee handbooks, formal management information systems, and if legal advice was solicited concerning HRM activities.

Respondents were asked about the firm's commitment of personnel to HRM practices. They were inquired about the number of full-time and part-time individuals devoted to HRM practices and functions. For the employees denoted as part-time, the participants were requested to estimate the percentage of the individual's time that was allocated to HRM activities. The principal HRM employee(s) was asked about his or her years of experience, level of education and if she or he had any type of HRM certification.

The principal HRM employee(s) was requested to rank his or her level of expertise in a variety of HRM areas. These included fifteen separate areas such as strategic human resource planning, recruitment, job design, and employee relations. The ranking extended from one (very little expertise) to five (extensive expertise) with three being the average.

Last, the sample was questioned about their preferences for obtaining additional HRM education. Specifically, they were queried about the format of delivery such as on-site seminars, web-based courses, formal classroom instruction, concise off-site seminars, or other respondent suggested alternatives. Additionally, they were questioned on the type of credit they sought for supplementary education which included: college credit, certificate credit, continuing education credit, no credit, or participant suggestions for credit.

RESULTS AND DISCUSSION

Characteristics of the sample

The general characteristics of the sample can be observed in Table 1. The responding organizations in the sample reported 64.6% were engaged in either retail or service type businesses. The majority of the sample had less than 49 employees (91.5%). Approximately two-thirds of the firms were located in the survey area's main urban community (a population of 170,000) and one-third were situated in the surrounding rural area. Only four firms reported any type of union representation of the employees resulting in 97.1% of the sample being non-union.

Table 1: Sample Characteristics

	Frequency	Percent of Sample
Type of Business:		
Retail	39	27.7
Industrial	28	19.9
Service	52	36.9
Financial Services	9	6.4
Health Care	13	13.2
Size:		
0 - 9 Employees[a]	78	55.3
10 - 49	51	36.2
50 - 249	12	8.5
Location:		
Metropolitan/Urban Area	94	66.7
Rural Area	47	33.3
Firms that have Union Representation[b]	4	2.9

n = 141

[a] The 0 point is included because some firms reported no employees other than the owners.

[b] The percent of employees represented by a union ranged from 33.3% to 66.7% within the individual firms.

Location where HRM practices and functions are performed

Respondents were queried as to the type of HRM practices and functions performed internally by the organization or an outside entity. The functions and practices were divided into four categories: staffing, training and development, employee evaluation and reward, and maintenance. Table 2 contains summary statistics of the participants' responses. First, the subjects were asked to indicate which HRM functions and practices were not performed at their location.

Only a few firms indicated that some specific HRM functions and practices did not apply to their location. Some firms may be too small to have employees or the practice is performed at another company location. Coping with employee benefits received the highest response rate of "does not apply" (eight or 5.7%).

The results indicate that over 90% of the reporting firms perform all or part of the HRM functions and practices. The only exception was training current employees which fell below 90%, with 86.6% reporting that they perform this practice at their location. MSMEs do not appear to outsource many HRM functions and practices. With the exception of training current employees less than ten percent outsource any HRM functions or practices.

The organizations that did outsource certain HRM functions and practice were asked to estimate the percentage of the functions and practices that were outsourced. For example, four firms indicated that they outsource administration of benefits and these four organizations reported a range of twenty percent to one hundred percent of this practice being outsourced.

Overall, the results illustrate that MSMEs perform most of the HRM functions and practices internally. Those MSMEs that outsource do so on a limited basis.

Table 2: Location HRM Functions/Practices are Performed

	Frequency of Does Not Apply	% of Sample*	Frequency of Your Location	% of Sample*	Frequency of Outsourced	% of Sample*	Range of % Outsourced
Staffing:							
Who determines the number and types of employees?	5	3.5 n = 141	130	99.2 n = 1	0	0 n= 141	0
Who identifies potential job applicants?	3	2.1 n = 141	130	97.7 n = 133	2	1.4 n = 139	50%-75%
Who makes the final employment decision?	2	1.4 n = 141	132	99.3 n = 134	0	0 n = 141	0

Table 2: Location HRM Functions/Practices are Performed							
	Frequency of Does Not Apply	% of Sample*	Frequency of Your Location	% of Sample*	Frequency of Outsourced	% of Sample*	Range of % Outsourced
Training & Development:							
Who conducts employee orientation?	2	1.4 n = 141	127	94.8 n = 134	6	4.3 n = 135	10%-25%
Who is responsible for training new employees?	2	1.4 n = 141	125	93.3 n = 134	7	5.0 n = 134	10%-50%
Who is responsible for training current employees?	2	1.4 n = 141	116	86.6 n = 134	16	11.3 n = 141	5%-90%
Who is responsible for helping employees develop skills, knowledge, and abilities?	4	2.8 n = 141	119	90.2 n = 132	11	7.8 n = 141	10%-50%
Who discusses advancement opportunities with employees?	6	4.3 n = 141	129	99.2 n = 130	0	0	0

*The n is slightly different because some firms did not answer all questions.

Table 2: Cont. Location HRM Functions/Practices are Performed							
	Frequency of Does Not Apply	% of Sample*	Frequency of Your Location	% of Sample*	Frequency of Outsourced	% of Sample*	Range of % Outsourced
Employee Evaluation and Reward:							
Who decides the knowledge, skills, and abilities for each job?	3	2.1 n = 141	130	97.7 n = 133	2	1.4 n = 141	25%-50%
Who evaluates the performance of each employee?	4	2.8 n = 141	129	97.7 n = 133	2	2.3 n = 132	10%-20%
Who determines the salary levels for salaried employees?	4	2.8 n = 141	129	97.7 n = 132	1	.7 n = 141	10%
Who determines the hourly rates for hourly employees?	4	2.8 n = 141	130	98.5 n = 132	1	.7 n = 141	10%
Who determines employee benefits?	4	2.8 n = 141	130	98.5 n = 132	1	.7 n = 141	20%
Who administers the benefits program?	8	5.7 n = 141	123	97.6 n = 126	4	2.8 n = 141	20%-100%

	Frequency of Does Not Apply	% of Sample*	Frequency of Your Location	% of Sample*	Frequency of Outsourced	% of Sample*	Range of % Outsourced
Maintenance:							
Who is responsible for ensuring employee health and safety?	5	3.5 n = 141	126	98.4 n = 128	4	2.8 n = 141	25%-100%
Who is responsible for communicating human resource information to employees?	4	2.8 n = 141	129	98.5 n = 131	1	.7 n = 141	50%
Who is responsible for maintaining personnel records?	4	2.8 n = 141	128	97.0 n = 132	3	2.1 n = 141	50%-75%

* The n is slightly different because some firms did not answer all questions.

The level of HRM support systems

A series of questions were proposed to the sample about the presence of formal communication methods, formal management information systems (MIS), employee handbooks and if they consistently solicited legal advice. Table 3 presents the results of the HRM support systems survey questions. It is interesting to note that more firms have formal management information systems (60.3%) than use employee handbooks (51.9%). Considering the current dynamic and complex legal environment, it was surprising to discover that only 43.8% of the firms sought legal advice.

Personnel devoted to HRM

The respondents were requested to indicate how many full and part-time employees perform HRM functions and practices. Table 4 indicates the outcome of this inquiry. The firms in the sample disclosed that 60.4% had no full-time HRM personnel and 32.8% reported having only one full-time HRM employee. Furthermore, 57.8% of the firms indicated utilization of at least one or more part-time HRM employees. The respondents denoted that part-time personnel consumed an average of 16.4% of their time performing HRM functions and practices. The findings suggest that MSMEs do not deploy any significant numbers of their staff to accomplish HRM practices.

Table 3: The Presence of HRM Support Systems

	Frequency	Percent of Sample
Formal Communication Process	74	54.8
Formal MIS System	82	60.3
Employee Handbook	70	51.9
Seek Legal Advice	60	43.8
n = 141		

Table 4: Personnel Devoted to HRM

	Frequency	Percent of Sample
Number of full-time personnel: n = 134		
0	81	60.4
1	44	32.8
2	7	5.2
8	1	0.7
21	1	0.7
Number of part-time personnel: n = 127		
0	54	42.2
1	36	28.1
2	20	15.6
3	11	8.6
4	4	1.6
5	1	0.8
7	2	1.6
8	1	0.8

Level of HRM education and experience

The respondents had a mean of 16.3 years of HRM experience, with a range of less than one year (9 respondents) to three respondents declaring fifty years of experience. Table 5 depicts the participants' source and level of education and if the respondents had any type of HRM certification. The majority of MSME personnel rely heavily on teaching themselves the basics of HRM. Only 22.7% of the sample attained a college degree and a small percentage (9.9%) held any type of HRM certification.

Table 5: Source and Level of HRM Education

	Frequency	Percent of Sample[a]
Continuing Education	54	38.3
College Credit Courses	43	30.5
Company Sponsored Training	36	25.5
Seminars	70	49.6
College Degree	32	22.7
Self-taught	91	64.5
HRM Certification Type of certification SHRM	14	9.9

[a] The percentages do not add to 100% because the respondent could indicate all that applied.

Perceptions of expertise

Each participant was inquired to rate herself or himself as to the extent of knowledge she or he possessed concerning a variety of human resource activities. The responses could range from one (1) (very little knowledge) to five (5) (extensive knowledge) with three (3) being the average. Table 6 is a summary of the answers provided by the participants. The sample rated their knowledge of strategic human resource planning (2.24 mean), career development (2.83 mean) and recruiting (2.85 mean) the lowest expertise they possess. The three highest rated perceptions of expertise were employee training (3.53 mean), employee communications (3.56 mean) and employee relations (3.66 mean). The results may not be surprising after considering that many of the respondents are from organizations employing less than 49 employees. The small firm atmosphere would foster a sense of excellent employee communications and relations, and training would typically be on the job.

Table 6: Perceptions of Expertise		
	Mean	Std. Deviation
Strategic Human Resource Planning n = 132[a]	2.24	1.19
Career Development n = 134[a]	2.83	1.24
Recruiting n = 135[a]	2.85	1.14
Job Design n = 134[a]	3.07	1.24
Employee Orientation n = 135[a]	3.16	1.19
Compensation n = 135[a]	3.24	1.17
Selection n = 135[a]	3.26	1.12
Employee Development n = 135[a]	3.26	1.18
Employee Benefits n = 134[a]	3.26	1.28
Performance Appraisals n = 134[a]	3.28	1.27
Personnel Records n = 134[a]	3.34	1.29
Safety and Health n = 135[a]	3.35	1.17
Employee Training n = 136[a]	3.53	1.12
Employee Communications n = 135[a]	3.56	1.12
Employee Relations n = 134[a]	3.66	1.13
[a] The n is slightly different because some respondents did not answer all of the questions.		

Desired sources of HRM education

The participants were requested to state a preference for the source and type of HRM education they require to increase their knowledge-base. Table 7 represents the sample's reactions to this examination of knowledge acquisition methodologies. Educators should note that only 5% of the sample desired formal classroom instruction. By far, the ideal form of instruction was succinct seminars (63.8%) followed by web-based instruction (39%). Respondents desire credit toward HRM certification (37.6%) and continuing education (35.5%) compared to obtaining college credit (16.3%). This would suggest that MSME personnel are interested in education that will assist them in attaining HRM certification and possibly a more practical orientation. One could conclude that this type of education would improve the percentage of certified HRM professionals in MSMEs. However, 23.4% of the respondents elected no credit at all for their educational initiatives.

Table 7: Desired Source and Type of HRM Education

	Frequency	Percent of Sample[a]
Formal Classroom Instruction	7	5
Concise Seminars	90	63.8
Web-Based Instruction	55	39.0
On Site Instruction	11	7.8
College Credit	23	16.3
Certificate Credit	53	37.6
Continuing Education Credit (CEU)	50	35.5
No Credit	33	23.4

[a] The percentages do not add to 100% because respondents wereallowed to check all that apply.

DISCUSSION OF RESULTS

The data implies that the majority of MSMEs execute all of the basic HRM practices internally. The firms that indicated they are not engaged in some form of basic HRM functions and practices are presumably too small to have employees or do not need the activity due to the limited number of employees. For example, the largest number (eight or 5.7%) of "does not apply" responses delineated that managing employee benefits was not performed. This would indicate that either there are no employees or MSMEs do not provide benefits. Furthermore, nearly all of the

MSMEs that perform HRM practices accomplish these practices internally and do not utilize outsourcing. This would tend to support the findings of Hornsby and Kuratko (1990) that entrepreneurs of small firms tend to manage HRM activities themselves. For those very few businesses (less than 10%) that do outsource some HRM functions and practices, the most likely function is training of current employees followed by other training and development activities. The outsourcing of training could indicate a lack of training ability by internal personnel. The limited number of MSMEs that outsource could signify a lack of resources required to outsource HRM practices and functions. Consequently, the observed trend in small firms to outsource additional HRM practices (Cook, 1999; Hirschman, 2000) is not apparent in MSMEs. While it may be true that MSMEs lack sophistication and formality in their HRM practices the majority of MSMEs represent that they are capable of performing the basic HRM functions and practices internally, and the majority engage in all of the basic HRM activities found in larger organizations.

Potential weaknesses considering today's complex legal environment are: only 51.9% of the firms utilize an employee handbook and just 43.8% seek legal advice. This finding would bolster the assumption that MSMEs lack sophistication in HRM practices. However, a large number of firms (60.3%) use formal management information system processes than employee handbooks or legal advice. It is possible that firms are using commercially available management information systems to assist with legal and employee issues. Considering the small size of the firms and the opportunity for informal communication with employees, it is valuable to note that 54.8% use some type of formal communication processes such as newsletters, regularly scheduled meetings, or email.

MSMEs, as a general concept, do not devote significant numbers of the organization's staff to HRM activities. The finding that only 60.4% of the firms have no full-time HRM employee(s) and 57.8% use one or more part-time employees to perform HRM functions and practices confirms this concept. The part-time employees spend a relatively small fraction (an average of 16.4%) of their time on HRM practices. Thus, for many MSMEs, HRM is not considered to be a full-time occupation within the organization and can be performed in addition to other job duties by part-time employees and by formal MIS processes. These findings tend to confirm subsequent research by Coulter (2003) that developed the perception that organizations do not have a human resource department or an individual solely dedicated to human resource activities until the organization evolves to a sufficient size (employees) to justify the position or department.

The personnel that perform HRM activities have a surprising amount of experience (an average of 16.3 years), although there is a wide range in experience levels. Nine respondents reported less than a year of experience, but three reported fifty years of experience. Moreover, their time is not devoted entirely to HRM and many have been performing these functions for a significant period of time.

The years of HRM experience are not a reflection of the level of formal education attained by the primary HRM staff member(s). Only 22.7% possess college degrees and even fewer have any HRM certification (9.9%). What knowledge the HRM personnel have obtained is predominantly from self-study or brief seminars. Consequently, there appears to be a need for additional education and certification opportunities for HRM practitioners.

The self-ratings of HRM expertise provided useful insight to the research. The sample rated themselves fairly low on the following HRM activities: strategic human resource planning, career development and recruitment. Of the three areas, recruitment is the most problematic considering the findings developed in the literature which suggest that selection and retention of employees are the most critical HRM practices for SMEs. The other two activities that were rated low are probably more dependent on firm size.

The family-like atmosphere of many MSMEs may be reflected in the ranking of employee relations and communications. The high ratings for employee training may demonstrate that job skills needed for MSMEs could be fairly simple to coach and the small number of employees reflects on the constant interaction and continuous job training that transpires (OJT). It is interesting to observe, however, that employee training was the primary HRM activity that was outsourced.

The results of the research suggest that HRM practitioners perform a wide range of practices within their firms and do very little outsourcing. A potential weakness is that approximately half of the MSMEs use employee handbooks and less than half seek legal advice on HRM issues. Only 39.6% of the MSMEs in the sample employ a full-time HRM staff member, but may utilize formal management information systems instead of HRM personnel. Furthermore, MSMEs incorporate HRM functions and practices along with the other required job duties of their employees. A preference was expressed for HRM education in succinct seminars and web-based instruction, and there appears to be a need for some type of HRM certification or continuing education credit.

IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

HRM educators should evaluate the following: HRM practices employed; support systems utilized; and the level of education, experience and expertise MSME personnel exhibit in order to determine HRM classes and course content required. Realizing that information acquisition may be difficult because practitioners are busy and somewhat skeptical of academicians (Price, 2004). MSMEs prefer concise seminars or web-based courses that result in certification or continuing education credit. MSMEs desire education methodologies that are easily incorporated into the life style of entrepreneurial driven organizations.

The research has encountered several limitations worth noting. The data was collected from a region that would be considered in many respects rural area with only one SMA in the sample. The primary economic stimulus is agriculture. The results cannot be generalized to reflect HRM practices of MSMEs in densely populated metropolitan or urban centers. The research is primarily composed of firms (91.5%) in the sample that employ 49 or less individuals, and therefore is skewed heavily toward micro and small firms. The study did not measure MSME performance in relation to HRM practices nor sophistication or effectiveness of HRM practices. A model was not developed to determine the relationship between G1, G2, G3, and their impact on G4.

The objectives of this study were to provide a research agenda for extending the knowledge of HRM practices and support systems utilized by MSMEs, as well as develop new and additional data concerning the profile of HRM personnel in MSMEs and the preffered educational methodologies and credit desired. Future research could address such questions as, what level of HRM sophistication exists in MSMEs? What is the relationship between firm effectiveness and performance when contrasted to HRM practices utilized by MSMEs? What differences exist, if any, between rural MSMEs and urban/metropolitian MSMEs in HRM practices? What would a model that tested G1 + G2 + G3 = G4 reveal? What HRM classes and course content should be developed for MSMEs? The results of such research questions regardless of outcomes may clarify relationships for the benefit of both academicians and practitioners.

CONCLUSION

MSMEs perform basic HRM practices and functions internally that are normally incorporated in large organizations. MSMEs believe they are capable of accomplishing most basic HRM practices. The number of HRM practices was more advanced than forecasted by the researchers, especially with a sample primarily composed of firms (91.5%) with less than 49 employees (Hornsby and Kuratko, 1990; Deshpande and Golhar, 1994; Hill and Stewart, 1999).

The research findings tended to support the literature's conclusions on formalization. The results of the study would suggest disaffirmation of the literature to date concerning increased outsourcing trends (Cook, 1999; Greer, et al.;1999). Handbook utilization, legal advice solicitation, and the limited number of employees performing full-time or part-time HRM practices would further confirm de-formalization assumptions. Technology may be assisting MSMEs with HRM practices through management information systems and commercially available HRM software.

A negative relationship can be claimed for professional HRM practices, departments, and employees performing HRM activities in MSMEs due to resource limitations, small firm size, and reduced internal complexity. The basic HRM practices employed by MSMEs implies that MSMEs do realize the importance of HRM in recruiting and retaining employees as well as firm performance and competitive advantage. Possibly, HRM practices in micro and small firms can be synthesize down to the social and leadership skills of the entrepreneur, family member, or manger instead of a HRM department, formalization, or dedicated HRM employee(s).

The personnel that administer HRM practices and functions in MSMEs have more experience than would be anticipated. However, formal education and certification are lacking. The levels of experience and education of MSME human research management personnel are not correlated. The areas of weaknesses and strengths identified by the self-ratings of HRM expertise conforms to the literature identification of strengths and a weaknesses of HRM practices in SMEs.

Therefore, due to this informal flexible HRM style; a wide range of HRM practices and functions performed internally; support systems; and level of education, experience and expertise of the employees would advance that educational opportunities exist. Moreover, this education should be directed toward HRM certification or continuing education credit by means of succinct seminars or web-based instruction. Yes, MSME employees have busy lives with little time for education.

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