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ENTREPRENEURIAL EXECUTIVE

JoAnn and Jim Carland

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LETTER FROM THE EDITORS

Welcome to the *Entrepreneurial Executive*. We are confident that this volume continues our practice of bringing you interesting, insightful and useful articles by entrepreneurs and scholars.

The *EE* is an official journal of the Academy of Entrepreneurship®, a non-profit association of scholars and practitioners whose purpose is to advance the knowledge, understanding, and teaching of entrepreneurship throughout the world. It is our objective to expand the role of the *EE*, and to broaden its outreach. We are interested in publishing articles of practical interest to entrepreneurs and entrepreneurial scholars, alike. Consequently, we solicit manuscripts from both groups.

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The manuscripts contained in this issue were double blind reviewed by the Editorial Board members. Our acceptance rate in this issue conforms to our editorial policy of less than 25%.

JoAnn C. Carland
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PROMOTING A SMALL BUSINESS THROUGH THE SERVICES OF A CHAMBER OF COMMERCE: ONE CHAMBER'S STORY

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Erich N. Brockmann, The University of New Orleans

ABSTRACT

Chambers of commerce are an invaluable but often overlooked resource, especially to the small business owner. Chambers provide low cost ways of promotion which are frequently underutilized or neglected by the small business owners. This article presents a case study of one chamber's services which can be used to promote one's small business.

INTRODUCTION

As long as commerce has existed, traders have banded together to govern the conduct of business, provide common protection against enemies and promote their businesses (Morro Bay, n.d.). As guilds formalized these collectives they formed an important part of medieval city and town life (Guilds in the Middle Ages, n.d.). Over the ensuing centuries, these guilds evolved into modern day trade associations and chambers of commerce.

The concept of a chamber of commerce first appeared in Europe at the end of the 17th century. The earliest locally-based chamber in North America was established in Charleston, South Carolina in 1772 (Morro Bay, n.d.). Today there are 2,800 state and local chamber chapters and 3,000,000 business members in the U.S. (U.S. Chamber of Commerce, n.d.).

As with their ancestral guilds, the activities of early U.S. chambers were limited to commerce, at least initially. However, over time, the role of chambers expanded to include recruiting new businesses to an area, job creation and other socioeconomic concerns such as housing, public education, workforce development, community services, and unemployment. More recently, chambers have become active in the legislative areas of local, state, and federal government in order to look out after the interests of business members and the economic and social welfare of their communities (Morro Bay, n.d.).

PURPOSE

The purpose of this article is to show how small business owners who are members of a chamber of commerce can use the services of that chamber as a means to promote their business. This study is an exploratory case and is not generalizable to the general population of chambers

of commerce. Also, the study serves as an impetus to future research studies on chambers of commerce, a topic which has been neglected by academic researchers.

LITERATURE REVIEW

Chambers of commerce are an important force in any community, large or small, yet little academic research has been done on them. Studies include one by Dawley, Stephens, and Stephens (2005) who studied the multi-dimension ability of organization commitment of volunteer chambers of commerce board members. Modeling was used to examine the affects of organizational commitment on several critical roles the board member is to perform. Study results showed that normative, affective, and continued commitment based on few alternatives had a positive effect on the role of board members. Another study by Lacho, Bradley, and Cusack (2006), investigated the role of business nonprofit organizations in helping with the survival of small businesses in the New Orleans Metropolitan Area in the aftermath of Hurricane Katrina. The business nonprofits, including three chambers of commerce, made extensive use of e-mail in communicating with their members as well as holding workshops on disaster relief topics such as SBA loan programs and insurance. Cooperation or partnering on events with government economic development agencies was carried out.

Lacho (2008) studied the government affairs activities of four chambers of commerce in suburban New Orleans. Each of the studied chambers has a standing government affairs or public policy/committee which monitors local, state and federal issues and informs the membership about them. Members have the opportunity to interact with local, state, and nationally elected officers at locally-based forums such as luncheons or meet them at the state legislature. A recent development is for government affairs committees to work with similar committees of other chambers on issues of common concern.

The Schapiro Group studied if consumers really patronize businesses because they are chamber members. Data came from a scientific web-based survey of 2,000 adult consumers nationwide. Their findings show if consumers know that a small business is a chamber member the chamber enjoys a 44% increase in consumer favorability rating and a 63% increase in the likelihood that consumers will patronize the business in the future. (The Schapiro Group, n.d.).

BACKGROUND

The Jefferson Chamber of Commerce is located in Jefferson Parish (county), a suburb of New Orleans, Louisiana. It was founded in 1997 and is a private nonprofit, membership driven organization with a 501 © 6 IRS designation. The Chamber has over 1,000 members and is managed by a 73-member voluntary Board of Directors and 17 non-voting community representatives. A president and eight staff members manage the day-to-day affairs of the affairs of the chamber.

The chamber has seven primary standing committees. They are Business Development and Growth, Communications, Education, Government, Membership, Special Events, and Diplomats. Within these committees there are many subcommittees and task forces.

RESEARCH METHODOLOGY

An exploratory study format was used given the very early stages of any theory development concerning relationships between chambers of commerce and small business owner members (Siggelkow, 2007). Such a method is applicable to the current situation because of the lack of significant studies and because it allows for richer data (Eisenhardt & Graebner, 2007; Eisenhardt, 1991).

The president, selected committee chairs and staff members of the Jefferson Chamber of Commerce were interviewed in person or by telephone. The interviews lasted 30 to 60 minutes. Secondary sources such as the chamber website, e-mail notices, and chamber printed materials and newsletters were used. In addition, one of the authors drew on his experience as a member of the Chamber's Business Growth and Development Committee during the past ten years.

LIMITATIONS

This study shows how the services of a chamber of commerce can be used to promote a small business. It is an exploratory case study of a single chamber of commerce and limits the generalizability of the findings to the population of chambers of commerce. (Eisenhardt & Graebner, 2007; Eisenhardt, 1991). Obviously there are differences among the many chambers of commerce. There is no intent to suggest that chambers throughout the United States behave the same as the one described in this study.

The impact of the external environment on the Jefferson Chamber is not part of this study. Such factors as urban versus rural, local economic conditions, geographic, socio-cultural, employment levels and the dominant nature of the local economy, e.g., tourism, manufacturing, a distribution center are not considered as part of this study.

FINDINGS

Small business owners may be pressed for time to aggressively promote their business. The Jefferson Chamber provides opportunities for promotion through several chamber channels. The Annual Membership Directory lists every member by name and business category in print and online. Chamber members automatically have an Internet directory listing consisting of company description, and map log on ShopJeffersonNow.com and an opportunity to post coupons at no charge. The Chamber provides a link to the company's homepage from the

chamber's website. Discount television advertising opportunities are available through WDSU-TV's Mini Ad Program with the Chamber Foundation showcasing community businesses.

A grand opening is available for all new members. Promotional displays or tables may be set up at chamber luncheons or networking events. The cost is \$100 per event. The Chamber's logo may be put on business cards, letterhead and advertisements of the business. All members receive a plaque for location display purposes.

The Chamber offers over 100 events each year. Luncheons are held monthly. Each has a featured speaker. Some luncheons are extra special events such as the Small Business Administration Awards Luncheon or the State of the Parish speech by the Parish President. The average attendance at luncheons is 100-150, most of the attendees being chamber members. One slight exception to this is where a member company buys an entire table and invites clients who may not be chamber members.

Special events include the annual Crawfish Boil (600 attendees, some are clients of members), a Day at the Legislature (limited to 50 chamber members), the Annual Golf Tournament (400 attendees, some are clients of members), and the Jubilation Annual Gala held at night (600 attendees). Attendance varies with nature of the event. Most attendees are chamber members. Non-members would be guests, e.g., friends, spouses and clients.

The Tour de Jefferson is a special bike ride for Jefferson Parish sponsored by the Chamber. It attracts about 400 riders, one-half of them non-members. The ride is open to the public and is more of an event which promotes the chamber in general.

Similarly, there is a Halloween event in October which is open to the population of the entire parish. The event attracts an estimated 2,000 persons, mostly parents and their children. Again, the event promotes the chamber in general as a good community citizen.

The above events offer opportunities to network. However, there are two venues designed primarily for business-to-business networking. These include the bimonthly Business & Breakfast event with an average attendance of 50 people and the evening Business Card Exchange (70-100 attendees). Most attendees at these events are chamber members.

Networking can occur in committee work. There are seven committees as noted above. Committee work offers opportunities to network with other chamber members, both committee members and non-committee members. Committee work brings name recognition and pathways to higher chamber-elected positions and even more name recognition and business contacts.

DISCUSSION

The Jefferson Chamber offers a number of channels to promote one's small business with a maximum use of one's time. Listings such as the annual print directory and the chamber website are at no cost which is invaluable to small businesses on a small promotion budget. Advertising for the printed directory is sold by the publisher, not the chamber. Larger organizations such as banks, hospitals, and local utilities tend to be the advertisers.

The chamber's use of electronic media is increasing as it has a foothold in the Internet world and is moving ahead in that area. There is no advertising currently done by members on the chamber website, however, plans are for the chamber members to advertise on the chamber website in the future. The chamber does put out a monthly business report e-mail to members on the parish's economic status. Chamber members may sponsor the report with a logo at \$168 per month. Also, as noted in the Findings section chamber members are provided a link from the chamber website to one's business website.

Large chamber members typically provide sponsorships for major events such as the annual meeting and Gala. For example, Presenting Sponsor-\$7,500, Gold Sponsor-\$2,500, and Silver Sponsor-\$2,000. Small companies on a limited promotion budget may sponsor low cost events such as the Business Card Exchange. One may wish to take part in low-cost Budget Reduction Trade Opportunities by targeting those events which are related to one's type of business. For example, a sporting goods store may sponsor a Hole for Golf Tournament at a cost of \$200.

The purpose of networking is to develop mutually rewarding relationships. These may result in new customers, assistance in solving business problems, sources of information, or a referral to a business provider. On the other hand, some chamber members view chamber activities which help the community as a means of giving back to the community. They are making for a better community in which to live and improve the quality of life.

Chamber members may network at luncheons, special events, networking designed events and committee work. One benefit is just plain socializing with friends. The small business owner has to weigh the opportunity costs of attending a chamber event. Not attending the event could be done for business reasons, family needs, personal reasons (illness), the luncheon speaker and his/her topic.

Speed dating is an efficient use of time. For example, at the Business & Breakfast event a set up consists of seven tables, each with seven persons assigned seat numbers. Each person has two minutes to say his/her name, company, and a brief description of what the company sells. At the end of a round, participants switch to another table. The process is repeated seven times. So in approximately one and one-half hours one can make 48 sales impressions. Follow up networking is allowed for another 30 minutes. In addition, one may set up a display table at the event. There is a \$10 cost to attend.

The real value of networking requires hard work. One must carefully select events to attend and committees to work on. Next, attend and work. Networking requires repetition, repetition, repetition.

Most of the Internet exposure and networking is done with other chamber members. A study by the Shipiro Group (2007) found that when consumers know that a business is a chamber member, 63 percent are more likely to buy goods or services from that business. Consequently, it is important for a small business to inform consumers that it is a chamber member. This may be done in several ways. A plaque may be posted in a prominent place in or outside the business.

One may attend chamber events where the general public attends. In addition chamber membership may be pointed out on business cards, letterhead, advertising, or other forms of promotion. One may ask other chamber members to send referral business.

These are some of the ways one can promote to the non-chamber public. Next, let us consider suggestions for future academic research concerning chambers of commerce.

SUGGESTIONS FOR FUTURE RESEARCH

Little academic research has been conducted on chambers of commerce. One possible area of research is to study what other chambers do in the way of activities to help members promote their businesses. How effective are these activities? How do activities vary by chamber according to size, the external environment such as urban versus rural, local economic conditions, geographic location, socio-cultural factors, such as ethnic group (Hispanic, Black, Asian), and the dominant nature of the local economy.

The opportunity cost of attending chamber events and taking part in activities should be studied. What factors influence attending or not attending a particular event or activity? How does one measure the benefit/cost of attending or not attending an event?

What is the extent of non-member attendance at chamber events? Why do they come? Do they become members? Why or why not? What is the extent and future of the use of the Internet in chamber operations? How the Internet is used? What is the future of Facebook in chamber promotion? How can it be used to promote the members of the chamber?

CONCLUSION

This study presents a case study of one chamber of commerce and the services it provides small business members to promote their products/services. Print and online listings are used to present the company and its products/services. Sponsorships at events, large and small are available. There are many opportunities for networking, either at general events, e.g., luncheons, specifically designed networking events, or committee work. The small business member needs to balance the cost of attending a chamber meeting against business and family demands. Most Internet exposure and networking is with other chamber members. A chamber can assist a small business promote its product/services to the general public. This may be done by posting a chamber membership plaque, using the chamber logo in one's advertising, and attending or sponsoring chamber events which attract the general public.

This study is a single case study and is not generalizable to the population of chambers of commerce. Consequently, there are many opportunities for academic research concerning chambers of commerce. One area of research concerns chambers activities and how they may differ according to urban versus rural, economic and socio-cultural environmental factors. Of particular interest is the future of the Internet and Facebook in chamber promotion and activities.

Chambers of commerce have been a factor in commerce and trade for many years. Their assistance to small business owners will continue in both traditional means and technology of the future.

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FOUR STAGES TO MORE SUCCESSFUL KNOWLEDGE TRANSFER BETWEEN UNIVERSITIES AND INDUSTRY ENTREPRENEURS

Arthur Lloyd Sherwood, Indiana State University
David F. Robinson, Indiana State University
Susan B. Butts, Independent Expert

ABSTRACT

This article presents a framework for assessing and managing collaborative relationships between industry entrepreneurial firms and universities. Entrepreneurial decision makers are guided through four stages of successful collaboration including partner assessment and selection, alliance negotiation and governance, alliance management and assessment/termination. The framework will guide the decision maker through the critical stages of a successful collaborative knowledge transfer.

INTRODUCTION

Collaborating with universities has become an increasingly critical strategy for bringing in complementary capabilities and resources from external sources. Entrepreneurs may find multiple commercialization opportunities regarding university sponsored research. Industries including medical, pharmaceutical, automotive, optics, electronics, aerospace and biotechnology are turning to partnerships with the research university in order to transfer in critical technological knowledge that can ultimately be commercialized and grown into successful enterprises.

Why have these relationships been formed? Universities offer extensive access to a wide variety of research expertise and research infrastructure. Industry entrepreneurs offer extensive access to a wide range of expertise in product development/commercialization and market knowledge. Entrepreneurs that can bring the expertise of the university to their business may find significant opportunities to collaborate effectively for innovation. This article focuses on important aspects of how an entrepreneurial executive can manage a successful collaboration with the university to commercialize university research.

We propose to aid the knowledge transfer process by detailing a decision framework that can improve the effectiveness of the transfer process in university-industry (UI) collaborations based upon our research and experience with UI collaborations. The framework uses a learning perspective that incorporates the firm's knowledge transfer strategies and an assessment of the tacit-explicit nature of the desired technological knowledge. The framework is structured upon

the key decisions that firms make when engaging in the four main stages of technology transfer partnerships. To accomplish our objectives we will first briefly overview research that underlies the framework. Building upon this, we will secondly give important background information regarding the learning paradigm. Third we will describe and analyze the context of the partnering relationship ultimately focusing upon the interface between the university and industry

As one technology manager expressed, “The relationships between universities and industry are the critical components to making successful the transfer of knowledge.” Technology managers consistently indicated the importance of pulling together the appropriate “technical/business teams from both sides” to effectively transfer the technology. It is their situation at the transfer interface and their cognitive learning that ultimately will facilitate, or impede, the successful transfer of knowledge.

BACKGROUND

The University and Industry are typically not competitors, nor are they an integrated system with shared goals. Universities focus on knowledge creation and dissemination. And as one executive noted in interviews “The greatest hurdle that must be overcome in an industry/university relationship is the prevalence in an academic environment to seek knowledge and find answers versus the drive in industry to efficiently bring a new product to market.”

Firms focus on the application of knowledge to solve their own and their customer’s problems and may engage in knowledge creation or acquisition in order to solve those problems. The industry mission regarding knowledge has traditionally been very pragmatic. Entrepreneurial executives are concerned with employing knowledge to solve immediate problems in order to maximize earnings and stockholder wealth. They view research and development as an investment in future products which will lead to future profits. For firms, knowledge is a basis for profit through building advantages over competitors based on unique resources and capabilities (Grant, 1996).

There is a significant potential for firms to benefit from knowledge created in universities however, there are important potential barriers to effective knowledge transfer between universities and firms. These barriers come from the disparate missions of the organizations and are exacerbated by the nature of the knowledge to be transferred. The traditional difficulties seen in alliances and partnerships are present. These include difficulty forming inter-organizational trust and communication. Additional difficulties stem from the desire of universities to discover new knowledge and firm’s desire to apply knowledge to commercial products and services. Universities are often funded by public research dollars whereas firms must earn profits to invest in learning. Also, while traditionally universities seek to disseminate knowledge to spur other learning efforts, firms seek to internalize knowledge and restrict its flow to rival companies.

These diverse missions (and consequent resources and capabilities) are both strengths of the partnerships and a main source of conflicts between the partners thus creating a diversity paradox. This has created serious questioning of the ethics of the relationships in general, the specifics of the deals in particular and backlashes against the results of the agreements. For example, a consortium of universities including officials from the University of California System, Cornell University and Michigan State University signed an agreement related to biotechnology and agriculture, to lobby university administrators to stop issuing exclusive licenses and to retain more rights for academics in the issued licenses to companies such as DuPont and Monsanto Company. The consortium cited the need to protect the public universities' traditional roles of benefiting the small and poor farmer (Kilman, 2003). This may very well be related to the struggles consistently encountered concerning issues such as intellectual property rights, the speed of research, and the appropriate amounts for licensing fees that we've seen in our research. While there are often breakdowns in relationships, they may be avoided by using a carefully tailored approach to University-Industry (UI) knowledge transfer partnerships that considers the nature of the knowledge to be transferred.

Knowledge is embedded in the use and practice of knowledge and in order to learn both the tacit and explicit components, appropriate and legitimate access to the physical and social contexts is vital (Lave & Wenger, 1991). The physical context includes integrative mechanisms that create a degree of overlap of places and access to the knowledge. For example, UI partners may set up a variety of communications channels such as formal teams, face-to-face meetings between experts, and access to data via the web. Each will provide a different type and level of physical access to the knowledge (Sherwood & Covin, 2008). The social context focuses upon the relationships between the partner boundary role persons. This includes trust building, learning each other's 'language' and understanding the needs and concerns of the other party. Of these, the issue of trust plays a fundamental role and how to build it becomes an important issue for knowledge transfer.

The key question for entrepreneurs wishing to successfully transfer knowledge from universities then becomes: How can the decision maker allocate resources to both the social and physical context to effectively support knowledge transfer through learning? The answer is contingent upon the degree to which the knowledge is tacit vs. explicit. For example, if the knowledge is largely explicit then it is likely that there will be tangible deliverables that can be specified in advance. It is also likely that the physical context will be more critical than the social context. For example, the transfer of a material designed by a university researcher that has particular properties specified by the industry sponsor is primarily an explicit knowledge transfer. In this case, a university researcher uses his or her knowledge and expertise to create the material. The industry sponsor will receive a sample of the material and detailed instructions of how to make it, but not an understanding of how to design it. In the case of explicit knowledge transfers, the deliverables are tangible and usable by the sponsor with little or no additional involvement from the university researcher.

On the other hand, if the knowledge is largely tacit then it is likely that some of the deliverables will be intangible and difficult to describe in advance. It is also likely that the social context will be more critical than the physical context. Consider the previous example but instead the firm has asked to have the university researcher teach the industry researcher how to predict the performance properties of a range of materials based on their structure or composition. This is much less tangible than the earlier example of making a material and involves the transfer of the tacit knowledge of judging how the materials may perform based on their properties. Some of the knowledge needed to make these judgments resides in the head of the university researcher and is based on his or her experience and intuition.

Transferring the ability to predict the materials' properties to the users of it within the firm, may involve a variety of activities such as identification of key compositional variables, creation of a mathematical model or set of predictive rules, use of analogies, documentation of examples, etc. The more tacit nature of the knowledge needed, makes the deliverables more difficult to specify in advance. Transfer of tacit knowledge is also affected by the fact that it is people who do the transfer. While we often speak of organization to organization 'learning', it is the boundary role persons (BRPs; or boundary spanners (Inkpen & Currall, 1997) who actually transfer all but the most explicit knowledge (embodied in machinery, formulas, patents, copyrights). BRP's operating at the interface of the two organizations will also be the experts who provide the tacit interpretation and context for the use of any explicit knowledge obtained by the firm.

The role of trust in a knowledge partnership becomes more crucial as the knowledge to be transferred becomes more tacit than explicit. Explicit knowledge can be codified and transferred through technical means. Often what is transferred is simply the right to use an innovation. These rights can be transferred through a contract agreement and if the firm has sufficient absorptive capacity to learn the new technology then the UI relationship mainly becomes one of contracts and licensing agreements. However, as the knowledge becomes more tacit, then trust and commitment become much more important in fostering the cooperation necessary to allow the transfer to be most effective. Noted scholar Andrew Inkpen stated, "...trust should contribute to the free exchange of information between committed exchange partners. A 'free exchange' means one that is open and complete where neither party holds back relevant information. To transfer tacit knowledge there must be deep interaction between the university researchers and the firm's development team. This close collaboration will ensure that the knowledge is transferred in a way that allows the firm to troubleshoot its operations and gain." ((Inkpen, 1997, pg. 339)

KNOWLEDGE TRANSFER ASSESSMENT AND MANAGEMENT FRAMEWORK

What follows is a four stage assessment/management framework to aid the entrepreneurial decision maker regarding successfully transferring knowledge from the university.

Table 1: Framework for Collaborative Knowledge Transfer Success

Table 1: Framework for Collaborative Knowledge Transfer Success			
Stage 1: Partner Assessment and Selection		Assess the degree to which knowledge is tacit or explicit.	
		Assess the experience level of the partner; Examine the number, nature and outcome of past knowledge transfer activities.	
		Assess the level of trust between the partners.	
		Late Stage/Explicit	Early Stage/Tacit
Stage 2: Alliance Negotiation and Governance	Social	Develop trust between administrators.	Develop trust between administrators, knowledge holders and key research personnel.
		Engage in sincere negotiations and form a positive routine for evaluating progress on a periodic basis.	Encourage interaction of transfer team personnel to foster rich discussion and anticipation of each other's needs.
	Physical	Choose structure that allows for efficient exchange.	Choose structure that allows significant physical overlap.
		Establish clear communication processes with guidelines and procedures as well as milestones.	Establish transfer teams and communication routines.
			Develop milestones for progress and processes for resolution of disagreements.
			Arrange for both transfer teams to visit each others' facilities.
Stage 3: Alliance Management	Social	Maintain contact and monitor progress with administrators/managers.	Continuous building of relationships between administrators, knowledge holders and key research personnel.
		Begin discussions of future technology transfers.	Close collaboration between members of the transfer teams.
			Quick resolution of misunderstandings through rich conversations and also multi- channel communication links.
	Physical	Build efficient exchange channels	Build thick exchange channels (multiple means of access, face to face interaction between members of the transfer teams).

Stage 4: Assessment and Termination	Social	Assess the relationship between administrators/managers for sufficient trust and efficiency.	Assess the relationships between administrators/managers and knowledge holders for development of trust.
			Bring the teams together to assess progress and remaining steps if any.
			Develop plans for future related collaboration activities.
	Physical	Assess the communications channels for efficiency.	Assess the thickness of the communication channels.
		Propose follow-on agreements for related technology developments in the future.	If the project is near completion, take steps to secure all knowledge transferred.
			Create a routine for any follow-up work that may be needed to complete the project or for advice in the future.
		Disband the formal transfer teams.	Disband the formal transfer teams.

Table 1 captures this framework and the critical pieces of the assessment. We describe the key elements of the framework stages in the following sections. Included in the descriptions are examples from actual collaborations that illustrate key principles of the framework.

Stage 1: Partner Assessment and Evaluation of the Nature of Knowledge to be Transferred (Tacit vs. Explicit)

In Stage 1, potential partnerships are assessed on a variety of factors including the nature of the knowledge, experience levels and trust.

Tacit and explicit knowledge

Tacit knowledge is often subtle and not easily observed. If it were readily observable it could be converted into a more explicit form such as a patent, a formula or a device. Explicit knowledge is able to be observed and thereby more easily learned through objective means. Transfers that will involve explicit knowledge will be able to be governed by legal contracts and tangible measurements as to performance. Advice about how to use the knowledge is likely to be contained in a user's manual, series of formulas, or a patent or copyright. There is less uncertainty about the transfer of knowledge that is explicit allowing the process to be governed by rules, procedures and contracts. The more tacit the knowledge, the more difficult the transfer process can become. Tacit knowledge requires richer information flow and to obtain rich exchanges the partners will need to interact very closely. A close relationship requires personal

contact between individuals and a trusting relationship where neither partner feels that the other will take advantage of the other.

Basic research and the early stages of technology development are much less explicit than development that has achieved proof of concept and prototyping. Early research will require transfer protocols similar to those used for very tacit knowledge. Later stage transfers will be much more explicit to transfer because the knowledge will have been reduced to practice through prototyping.

In the case of explicit knowledge transfer, the university's experience may be embodied in the procedures of the technology transfer office. If the office has been in existence for a number of years, the technology assessment process and personnel, patenting, copyrighting and licensing processes will be well established. Similarly, for more tacit transfers, professors, graduate students and research assistants in an experience area will have routines on which they will rely in the absence of any other specific transfer routine. Tacit knowledge routines are likely to be more dependent on the goals, experience and attitudes of individual people (especially the knowledge creators) involved in the transfer process.

Compared to explicit knowledge transfers, tacit transfers will be more open to variability in terms of their execution as they are not able to have the rigid codification possible with more explicit knowledge. If the technology transfer is going to be done by inexperienced university personnel, the industry firm should increase the specificity of the transfer processes, expect a need for greater communication efforts, and be prepared for more variability in how the transfer personnel operate.

Experience

Experience is an important determinant in the success of future collaborative relationships. In the early phase of a knowledge transfer relationship, the industry partner should determine the level of experience that the university partner has engaged in during the past. Past experience with technology transfer activity similar to the current transfer project means that the university may have developed routines for information exchange, assessment of transfer progress, and communication between the experts handling the transfer process. A skilled university technology transfer office can mitigate privatization concerns by helping the firm to know what it is able to protect and what is less likely to be patented or will need to be kept as a trade secret.

If an organization does not have experience with a potential partner, it can screen the partner's reputation through others. However, technology transfer reputation information can be hard for firms to obtain. Identifying partners that are capable and can be trusted is a difficult task in a crowded field of potential sources of innovation and when resources for these identification efforts are limited. Assessing whether a partner is reliable and a good fit can be facilitated by joining a network that actively maintains relationships with researchers through regular

meetings. A senior manager of a research firm described the advantages of participating in the London Technology Network (LTN) along with 100 university and industry contacts as follows:

“There are some 40 universities in London and they do all kinds of research. Trawling over all of them would take forever, but this way we can go along to a meeting, get together with other companies and have direct contact with the researchers...It’s very useful – and it’s very well run” (Lambert 2003, pg. 33).

Joining a knowledge network can help limit search costs for effective transfer partners by providing access to information about others’ experiences with a potential partner. Having ready access to reputational data from a network can help ensure that firms and universities deal fairly with each other. In addition, partners can preview each others’ strengths in a particular area of technology and pre-screen partners making the selection of collaboration partners more efficient than if they had to discover all of the information on their own about each potential partner.

Assessing trust

A key element of technology transfer is the confidence that both partners have in each other. Trust in the partner firm or university is based in part on the reputations that each partner has earned from previous transfer activities. If the university has failed to deliver the ‘how to’ information to make the transfer effective in previous transfer deals, the firm will want to take steps to ensure that this does not happen again. On the other hand, if the university fears that the firm is incapable of developing the technology properly then the university will lose confidence in the effectiveness of any transfer. The university’s concern is more likely that the firm will not sell enough of the technology or utilize it effectively thereby limiting the royalties or fees that it could eventually pay for the new technology.

If the university is seen by the firm as untrustworthy or unable to transfer knowledge effectively, then the firm will avoid transfers. The firm may be concerned that it will not be able to protect its investment in new research because of too much disclosure by faculty who publish their results or because of the presence of public funding of the research. If the research project has attracted significant government funding there may be restrictions on whether the resulting innovations will be able to be protected long enough to generate sufficient revenues to justify the investment by the firm.

In fact, too much government investment in a collaboration can create concerns over whether the technology will be able to be patented. For example, in the Advanced Technology Program (ATP), as government investment in the collaboration increased, private firms were concerned that the intellectual property of the venture would be too much in the public domain

thus limiting the private sector partners' expected payback from the firms' investments (Hall, Link & Scott, 2001).

Stage 2: Alliance Negotiation and Governance

Stage 2 engages the parties in the negotiation and governance design. As Table 1 indicates, transfer varies according to the nature of the knowledge and the parties should consider both the social and physical components of the alliance in order to design effectively for knowledge transfer. Increasing trust and building a robust process for knowledge transfer are keys to success.

Increase trust to increase knowledge flow

To facilitate knowledge transfer, both partners need to develop a trusting relationship and/or sufficient safeguards to limit potential damage from the transfer to less than each partner stands to gain. In the case of explicit knowledge, intellectual property protection in the form of patents and copyrights may provide the university sufficient protection to make it willing to license its inventions to firms. However, in practice, firms may want a deeper relationship regarding the transfer of some of the more tacit elements of the knowledge. This may be especially important when the knowledge is process based as the researcher may have tips that will improve the firm's ability to use the patented process better or aid in diagnosing quality issues with the process based on the researcher's experiences.

Building trust between the parties can help alleviate some of the concerns that would otherwise require a very legalistic approach to the knowledge transfer. If both parties are more focused on protecting their interests rather than investing in effective knowledge transfer, the transfer experience may be flawed and fall short of both partners' goals.

For example, a university could file a patent but not disclose the best method for the firm's intended use. The firm might negotiate a royalty that uses estimates that understate the sales potential of the future product. There may be a lack of clarity regarding who will be paying to support the various transfer activities. Lack of trust and lack of information contribute to costs between potential partners.

The university will have to investigate the market value of the use of its technology to know how to put a fair price on its knowledge. The university needs to protect its interests in future innovation related to the technology. The university also needs to invest in understanding the reputation for fairness that the firm has developed in other partnerships. In many cases, significant legal and verification costs might make the technology not worth transferring (as either too expensive for an adequate return or too risky for the university to allow licensing). A strong relationship between the entrepreneurial firm and the university may depend on the ability of the technology transfer office at the university to help the parties balance their interests and

reach an agreement that protects the university while providing the firm sufficient access to knowledge.

Rolls-Royce is an example of intense collaboration through its research centers located at universities. At each center, researchers from Rolls Royce and from the university work on an aspect of engine technology such as gas turbines. University researchers work alongside company engineering teams and present and/or publish hundreds of research papers (an outcome that is highly valued by universities). Although publication can be a point of contention if the company is uncertain what might be disclosed and possibly rendered unpatentable, Rolls-Royce and its partners work to encourage publication but avoid disclosure of unprotected materials that would hurt the private sector firm. By creating mutually beneficial *and trusting* “long-term working relationships and trust” Rolls-Royce’ collaboration has proved “*demonstrably more effective than...more ad hoc, less focused relationships*” (Lambert 2003, pg. 39).

Agree on the transfer process and timeline

The university may have very different standards than the firm for what constitutes the different phases or products of the technology transfer process. The structure, experiences and culture of a university are focused in the longer-term outcomes of knowledge creation and dissemination via training of graduate students in a wide variety of disciplines. The industry partner firm is usually focused on applying a specific technology to solve a particular problem such as improving the effectiveness of a production process or developing a product targeted at a specific market. The entrepreneur’s perception of what is timely or complete may be very different than what academics or scientists might consider them to be, especially given the academic calendar that organizes university activities into discrete semesters or quarters that are separated by periods of vacation and followed by a summer break. This academic calendar and the culture that supports it influences when professors and their students are most available for transfer activities. This can be difficult for industry partners that are trying to meet short deadlines in a race for market entry or process improvement.

An important element of any collaborative technology transfer effort is to clearly establish a timeline and clear expectations as to what is effective and timely progress toward transfer. In the case of tacit knowledge transfers where there may be disagreement as to whether the technology has been adequately transferred, the parties need to agree on how the process will take place, how communication will be maintained, what will be the milestones for successful transfer progress and how problems and disputes will be resolved if they arise and at whose expense. In addition, both parties need to understand the goals of the transfer process and what is considered completion of the transfer so that both parties are clear when the terms of the transfer are complete. The personnel involved in the transfer process can then be re-assigned to different projects.

Stage 3: Alliance Management

Stage 3 involves managing the alliance for successful knowledge transfer. As Table 1 indicates, it is again important to take into account the nature of the knowledge and the social and physical aspects of the alliance. Keys to success include deepening the relationship and building appropriate communication and exchange channels.

At this stage the firm should re-examine objectives and determine what is needed to further the technology transfer process. For explicit knowledge such as a product patent, there may be no need for supplemental activities beyond transferring the legal rights to use the patent (a licensing agreement). However, if the firm wishes to adopt related inventions (often called a family of patents) then developing a contingent agreement for future developments (such as a first right of refusal on new developments) is a way of ensuring access to improvements in the university technology.

Deepen the transfer relationship.

A key goal of this stage is to deepen the relationship to ensure the transfer is sufficient to meet the needs of the industry firm. Respecting their partners' different priorities and trusting that beneficial outcomes will accrue to both partners over time are important for effective transfer collaboration. One manager summed up the motivating effect of goals that carry with them shared benefits and outcomes "*...so that it was a collective goal rather than someone's personal agenda moving forward*" and another collaboration manager stated that about a successful venture "*The biggest downside...I would go out of my way to try to prevent...[was] our not recognizing the value of both players being there*" (Rod & Paliwoda, 2003, pg. 277).

Another advantage of deepening exchange relationships is illustrated by Thomas Swan, an aerospace metals company. Swan needed to advance its metals manufacturing processes. University researchers had the scientific expertise to develop the materials needed. By collaborating the university partner trained three post-doctoral students, developed seven patents and published five papers. Swan improved its materials skills. Both partners attributed their success to the "*flexibility towards the priorities and objectives of the other*" over a long-term, two-way relationship. (Lambert,2003, pg. 40).

Much of the actual transfer of tacit information will take place between people such as each partner's technology experts. The better understanding forged between the people in the transfer process the more complete the understanding of the technology to be transferred. Misunderstandings or assumptions can be cleared up if trust between the technology experts allows clear and complete questioning of the technical knowledge involved in the transfer.

Partnerships can be designed to build trust and effective/rich communication. If future university technology developments are of interest to the firm, forming a research partnership

and sponsoring a laboratory or series of investigations with the primary university researcher can ensure the firm access to future discoveries.

In order to effectively transfer tacit knowledge, a period of close collaboration between representatives of the firm and the university researcher may be required. For example, a product engineer or scientist from the firm may need to come to the lab at the university to observe and participate in hands-on learning activities. This may be especially likely if the transfer involves a medical device or procedure where experience and technique are important to the success of the operation.

Communication and exchange channels

In the case of tacit knowledge transfer, the more tacit the knowledge to be transferred the more communication between the partners will be needed. Partners should open both formal and informal lines of communication. Inter-organizational technology transfer teams can be formed to link key personnel from both organizations to participate in the transfer process. Personal connections between the experts can build trust and understanding of partners' needs. These connections can be built up through interactions between the members of the two transfer teams, phone calls, emails and especially visits to the university and to the firm's respective laboratories or production facilities. Working alongside the university researcher can provide demonstrations and real-time feedback for the firm's "apprentice" so that the tacit knowledge transfers along with the explicit. If future developments are of interest to the firm, forming a research partnership and sponsoring a laboratory or series of investigations with the primary university researcher can ensure the firm access to future discoveries.

Using a variety of communication methods appears to be an effective means for advancing collaboration. For example, in a multi-party collaboration, success was attributed in part to the sustained commitment of the partners to team building efforts and high levels of communication using a variety of methods that appealed to the different parties in the collaboration. These might include: groupware with chat and bulletin boards, secure file transfers (which pleased the scientists), regularly scheduled teleconferences across teams, and a semi-annual series of face-to-face project meetings held over several days in attractive locations (*Couchman and Fulop, 2004*).

Stage 4: Assessment and Termination

During this final stage, the alliance for knowledge transfer is assessed and brought to a close. Keys to success will be establishing clear ending points or continuation processes and assessing key components of the relationship.

Establish a clear end point and/or continuation process

In this stage, regardless of type of knowledge, both partners will have to determine their exit strategies. Some of the partners' actions will be guided by the exit agreement clauses in the formal agreement. Typically there will be a minimum royalty or usage fee on patent licensing agreements usually providing the university with a minimum guarantee regardless of unit sales by the firm (or cost savings if the technology is used by the firm to reduce production costs and they have agreed to revenue sharing). Often at the end of the agreement, the university will transfer the patent to the firm for a final payment or the patent will revert to the university to be re-assigned to a different firm usually in some other part of the world limiting the competition faced by the original firm.

Both organizations will need to review the results of the transfer process, determine how effective it was and if any changes are needed for future transfers. If the technology transfer is on a trajectory where future improvements are likely, there may be changes in research direction as the research unfolds. Also, if the knowledge is tacit, there may be need for an ongoing technical relationship to assist the firm in making a successful transfer.

Petra Solar, a solar power technology and management company, is an interesting example of the value of an ongoing collaboration with the University of Central Florida (UCF). The relationship between the two organizations is described below. The innovation collaboration is based on the work of Issa Batarseh, a professor at UCF, who created innovative electronics that can manage the power from solar panels out into the power grid and for use in backup batteries. The CEO of Petra Solar said the talent and technologies out of UCF enabled their success and that Dr. Batarseh, along with his colleagues and students have done excellent research and development work. Petra Solar views the relationship with UCF *“as a strategic one. By expanding our operations in Florida, we are bringing true commercial activities closer to the university. This allows for more focused research and enables us to provide unique career opportunities to the graduates of UCF.”* (Anonymous, 2009)

As in the case of Petra Solar, if the two partners will work together again in the future then in this fourth stage both partners need to develop procedures for future exchanges. The partners should develop agreements that specify the terms of future transfer including intellectual property. If the firm wishes to adopt future university inventions then developing a contingent agreement for future developments (such as a first right of refusal on new developments) is a way of ensuring access to improvements in the university technology. This type of agreement also is a way to lock in a royalty agreement and cost sharing of future intellectual property expenses, helping to limit both partners transaction costs and limiting their risk of being exploited.

After the main part of the project has been accomplished there are a number of ways of sustaining a collaborative relationship. One is to have the faculty researcher join the board of a new venture formed to promote the commercialization efforts. Another may be to hire graduate

students who have helped to develop the innovations. In the case of a transfer that consists of a high proportion of tacit knowledge, the firm may wish to maintain a consulting arrangement with the university research team in order to be able to deal with potential problems in replicating the transferred skills. The researchers could also be consulted in the event there are unforeseen quality problems in the final products if the collaboration has been a good experience for the partners.

CONCLUSION

Entrepreneurs may find excellent opportunities working with the research located in universities. One of the critical sets of skills the entrepreneurial executive must consider is how to successfully transfer knowledge from the university to the firm. Our framework for collaborative knowledge transfer success provides a path to such successful knowledge transfer. By considering the nature of the knowledge and the profile of the potential partner, entrepreneurial decision makers can determine how to better negotiate, manage and bring these collaborations to a successful conclusion.

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STATE OF THE ENTREPRENEURIAL BLOGOSPHERE 2011

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ABSTRACT

Blogging is often misunderstood. While some individuals use blogs and their capabilities to become what amounts to journalists, whose influence either augments or contradicts traditional news media, entrepreneurs can use blogs for their own purposes. Activities may include interactively engaging with customers and building user communities, or providing messages using mediums such as video demonstrations which have heretofore only been available to advertisers with much bigger budgets.

To users blogs are like many other technologies; one sees the “shiny outside,” but not “under the hood.” As such, within the literature at large scholarly attention has been typically associated with aspects of media and journalism, socio-cultural analyses, and the literature of communications. Scholarly research on blogging or the “blogosphere” in the discipline of entrepreneurship is limited, despite the fact that the software that makes blogs work is designed for the primary purpose of allowing non-programmers to communicate any message they want to a world-wide audience, on the Web, and therefore blogs can be a powerful marketing tool for small businesses.

INTRODUCTION

The Pew Internet & American Life Project has conducted an ongoing series of research projects and published reports on Internet usage. In a summary memorandum released in January 2005 it was stated that “62% of internet users do not know what a blog is” (Rainie, 2005). However, as this paper will discuss: that landscape has changed significantly over the years with an explosive growth in the number of blogs, bloggers, and users. Perhaps the relevance to small business and entrepreneurship scholars can be suggested by a quote in *Entrepreneur* magazine that stated “[blogging has] gone beyond fad to become a full-fledged Internet phenomenon” (Kooser, 2002). Blogging has been further characterized as a “paradigm shift of how we disseminate and communicate” (Cunningham, 2005). “[Blogs] can be started with very little, and very inexpensive, editorial content yet are capable of exerting extraordinary influence” (Madden, 2005).

Early blogs, also called Web logs, or by the shortened term, “weblogs” were primarily used as online diaries for sharing content and commentary of a personal nature (Blog, 2010). In keeping with the social impact and immense sphere of influence that has developed in

connection with blogs and blogging, the term “blogosphere,” has arisen, defined as a “collective term encompassing all weblogs or blogs as a community or social network”(Blogosphere, 2011; Sobel, 2010). As observed by Madden (2005) an *MIT Technology Review* article: “Several factors have contributed to the emergence of blogs.... Blogging software is inexpensive—or often free—and easy to use. Low bandwidth requirements and Web-hosting fees keep the ongoing infrastructure costs of maintaining a blog very low” (p. 36).

Because bandwidth and access continues to increase, and technologies such as “Flip” video cameras and smartphones (Barbierri, 2010; Smartphone Futures, 2010) have arisen (providing instant connectivity for uploads) blogs can now enable any individual, or small business to leverage what amounts to a publishing (broadcasting, etc.) platform.

Most present day blogs have begun to supersede mere text and photos and many incorporate richer media including audio, video, and screencasts (Udell, 2005) as part of their content. Scholarly research on blogging or the “blogosphere” in the discipline of entrepreneurship is limited, despite the fact that the software that makes blogs work is designed for the primary purpose of allowing non-programmers an easy-to-use (Chung, Eunseong, Trammell, & Porter, 2007) means to communicate any message they want to a world-wide audience, on the Web, and therefore blogs can be a powerful marketing tool for small businesses.

REVIEW OF EXISTING LITERATURE ON BLOGGING

After a series of searches in the scholarly literature using library databases it was revealed that the topic of the “entrepreneurial blogosphere” has received little attention from academic researchers within the discipline of entrepreneurship. Search attempts conducted on *Academic Search Premier* demonstrated a dearth of scholarly research on “entrepreneurial blogging,” for instance. This search resulted in only one result, published in the trade publication *EContent* magazine (Levack, 2004). This particular article focused on blogging as a business unto itself. Upon expanding this same search to also include the database *Business Source Complete*, a total of five “hits” were found: the aforementioned article, a Harvard Business School case (HubSpot: Inbound Marketing and Web 2.0, 2009), a 2003 two-page article reviewing “‘blogs’ kept by entrepreneurs,” and one article published in the Serbian language (listed as a duplicate result in the search results—thus, the actual overall result from the search effort was four hits).

Another search using the databases *Academic Search Premier*, *Business Source Complete*, and *Business Source Premier*, concurrently, using the term “entrepreneurial blogosphere” (in “SmartText Searching” mode, which allows for searching on text strings and phrases) produced the result “No results were found.” Other related searches using additional databases also showed sparse results. For instance, the databases *Communication & Mass Media Complete*, *MLA Directory of Periodicals*, *Regional Business News*, and *TOPICsearch* were all used concurrently in a search using the terms “blogosphere” and “small business” (in combination); this resulted in one newspaper article published in 2005.

It should be mentioned that other desirable limiters from the point of view of conducting a review of scholarly literature for the searches described above were not set; specifically, check boxes to select only results for “full text” and “scholarly” articles were not selected in these searches. Another search on the term “blogosphere” by itself using the databases *Communication & Mass Media Complete*, and *SocINDEX* returned 129 and 29 results from these two databases, respectively. However, upon scanning the titles and abstracts, they reflected that scholarly attention had been paid to topics such as fashion, democracy, political and other discourse, religion, journalism and news media, and virtually anything “blogosphere related,” except for small business and entrepreneurship.

Numerous other searches have been conducted for purposes of this literature review. Searches on terms like “blogs” and “blogging” in business related library databases did indeed yield numerous results. However, once limiters such as “scholarly publications” were applied, it was clear that the popular business press has recognized the relevance of blogging, blogs, et cetera, in association with the entrepreneurial blogosphere, but entrepreneurship scholars have not.

For instance, using the databases *Business Source Complete* and *Business Source Premier* (together) and the search term “blogosphere,” 902 results were returned with reported publication dates between 2003 to 2011; once the limiter “Scholarly (Peer Reviewed) Journals” was applied, results dwindled to 64 (and publication years automatically changed to reflect the period between 2004 and 2010); a perusal of these remaining 64 results demonstrated some scholarly attention to the “blogosphere” among all disciplines has been paid, but in contexts that are wide-ranging. For instance, article descriptions included health blogs, corporate social responsibility, ethical issues, employee issues (e.g., employees’ blogging rights, or not), blogging in association with specific industries, blogging as an effective PR/marketing tool—relevant to this particular research—and the like, but a lack of concentrated and sustained research efforts on the part of entrepreneurship scholars was demonstrated (at least as far as these two databases were concerned).

Consequently, an expanded search beyond library databases ensued using Google Scholar in advanced search mode for the exact phrase “entrepreneurial blogosphere” yielded a very specific result related to the topic associated with this present paper, entitled “State of the Entrepreneurial Blogosphere” (Lahm, 2006).

Since five years has passed since the publication of the aforementioned article, it is evident that much has changed in terms of the world economy, technology, adoption rates, connectivity (e.g., smartphones), access, and the Internet as a whole. Yet, as observed by Lahm in 2006, one condition remains the same: “rigorous study of blogging as a variable under study in entrepreneurial research has been minimal.” As such, while this present paper will build upon the aforementioned work from 2006, it too should be regarded as exploratory in nature, and will review the “State of Entrepreneurial Blogosphere” in 2011 using data and source material not available in the academic literature.

Notwithstanding the limited findings discussed above in terms of a review of scholarly literature, search results from Internet search engines produced millions (or billions) of results. Using Google, for instance, a search on the term “blogosphere” returned 10,900,000 results; and one using the term “blog” returned the results statement “about 5,570,000,000 results” (*Google* search results retrieved March 6, 2011). It might be noted that in the literature review in the aforementioned “State of the Entrepreneurial Blogosphere” article described the same *Google* search using the term “blog” conducted approximately five years earlier: “A *Google* search on the term “blog” returned the results statement: “about 2,070,000,000 for blog” (retrieved March 16, 2006).”

Since 2004 Technorati.com has been actively tracking statistics and providing reports regarding the “State of the Blogosphere [year here, 2004 to 2010]” (Sobel, 2010). As such, the site widely is quoted in mainstream media articles (and by scholarly researchers) as a seminal source. In the Technorati “State of the Blogosphere, February 2006 Part 1: On Blogosphere Growth” report, it was stated that the site “currently tracks 27.2 Million weblogs, and the blogosphere we track continues to double about every 5.5 months” (Sifry, 2006). For the sake of comparison, according to BlogPulse.com (a site operated by The Nielsen Company), it tracked the existence of 157,023,658 blogs (retrieved March 6, 2011), with 77,414 “New blogs in last 24 hours” (BlogPulse Stats, 2011).

LOOKING “UNDER THE HOOD” AT BLOGGING SOFTWARE

Although early blogs may have been as easy-to-use and widely adopted platform for personal diaries and other uses by individuals, the software that makes blogs work, “under the hood,” is actually a type of content management system (CMS) (Peterson, 2009). As such, most popular blogging platforms have evolved over time. WordPress (see WordPress.org) is an example of one of the most popular and widely adopted, and it supports multiple authors with varying roles (Rapoza, 2008) as well as RSS (real simple syndication) feeds (Janelle, 2008; Joly, 2007; Tebbutt, 2007) as built in features. Typical content management systems work by using scripts to connect to a database; a script is basically a set of instructions written in a language that a computer server can execute.

A very simple example of a script is one that queries a server (the computer where a website’s files are stored and “served” to visitors) as to the current date, and then displays the date to the visiting public (thereby creating the impression that the site is current and “tended to”). Another similar example is when a site owner uses a script to keep a copyright year current; for instance a message on the footer of a page might say “[name of site] and all of its contents copyright [script – go check the server and display the current year].” There are numerous scripting languages, and although writing code in these languages requires the expertise of a programmer who is versed in a given language, the whole point of a content

management system is to provide a web-based platform that does not require a blog owner, authors, or guests to have such expertise.

Whatever the content of a site may be, scripts are used to fetch and assemble components such as a site's header and footer, navigational sidebars, along with editorial content (and perhaps advertisements). Because, "content management systems are able to capture and present for either private (through password protected access to certain information, for instance) or public view, the expressed knowledge and experiences of individuals or organizations, or whatever other content is placed within a given system" (Lahm, 2006), the applications to which they may be put to use far transcend those that are personal (diaries, et al).

"Roles," as mentioned above are assigned to users, giving them various levels of access and authority over a site. Even if the terminology is different with various kinds of systems, this notion of using roles is an important one both in the context of Internet sites that are visible to visitors on the World Wide Web, and on internal company/organizational sites (intranets). For example, a blog might have the roles "Administrator" (one who can make fundamental changes to the site, how it looks, and how it operates, and what functions and/or privileges are available to others); "Editor" (one who can approve the public posting of content authored by others, disapprove that content, change it, etc.); "Author" (one who can write content but may not have the authority to approve the work for public display); and "Subscriber" (one who can see and comment regarding content on a site, but may have his/her comments held in a moderation queue for approval first, usually by an editor or administrator).

In effect, a content management system serves as technology that allows for the entry, storage, retrieval, and reporting of data (i.e., displaying specific types of information to users and/or visitors, depending on their assigned role or status as a visitor); owners/users needn't have a sophisticated understanding of the inner workings of these systems (Peterson, 2009; Rapoza, 2008). Furthermore, many of the leading website hosting sites provide for nearly instant installation of popular blogging software platforms (and other content management systems, bulletin boards, etc.). For example, the hosting company Hostgator.com provides "Fantastico," which is an icon-driven user interface for clients to install "Instant Shopping Carts, Blogs, Portals, Forums, Counters, Formmail" (Hostgator.com hosting plans, 2011).

BLOGS AS A TOOL FOR ENTREPRENEURIAL MARKETING

"Blogging may have started as a channel for people to start conversations and build virtual communities, but more and more companies are using blogging as marketing tools" (Battenberg, 2008). Business oriented blogs have been created for myriad purposes and they are used to cater to the interests of a wide variety of audiences. For instance, professionals such as CPAs (Blogging for Business, 2008; Copeland, 2010) and attorneys (McDonough & Randag, 2010; O'Keefe, 2006) may find them to be a very useful communications and outreach tool. As an example, according to LexBlog.com (a service that assists lawyers with developing, creating

and deploying lawyer-specific blogs—3000 at the time of this writing), “typical brochure-style law firm Websites are quickly outdated, static, neutral and passive. Blogs are timely, dynamic, personal and interactive—an agile practice development tool that focuses directly on your target audience” (Why Blog?, 2011).

Regardless of specialty or practice area, writing about topics that are associated with one’s own expertise is a recognized way of gaining recognition (Klein, 2009; Pellet, 2008). Within this context of businesses using blogs, an “entrepreneurial blogosphere” (Lahm, 2006) has also arisen, wherein:

For a number of reasons, but particularly because blogs are relatively inexpensive and easy to set up, small businesses have found that they can represent themselves through blogging platforms. Because blogs are updated dynamically, as compared to what might be described as predecessor Web site technology, which was static in nature....[blogs] are rapidly becoming if not already recognized as a superior platform for small business marketing communications. (p. 27)

Blogging allows for an entirely different “conversational marketing” (Karpinski, 2008) relationship between consumers (customers, clients, and so forth) and an organization’s constituencies. Numerous large corporations have embraced blogs for this reason. As Karpinski also observed, “about 12% of Fortune 500 corporations run a corporate blog. Yet companies that have made a commitment — including Dell, Eastman Kodak Co., IBM Corp., Intel Corp. and SAP — are now deep into blogging programs with multiple weblogs, dozens of bloggers and a wealth of expertise and best practices to share.”

With regard to smaller entrepreneurial firms, according to an article in *Home Business Magazine* “customers like blogs better because they feel they are having a conversation with the entrepreneur” (O’Neill, 2008); they also allow businesses to transcend geographic borders (globally). “Because blogs and other social media forums constitute a (semi) permanent archive of consumers’ WOM [word of mouth], managers can mine the conversations for consumer insights into their products” (Kozinets, de Valck, Wojnicki, & Wilner, 2010). As observed by Blackshaw and Nazzaro in a white paper from *Intelliseek* (2004):

Although influenced or stimulated by traditional marketers and marketing activities, online word of mouth is nonetheless owned and controlled by consumers, and it often carries far higher credibility and trust than traditional media, especially as media channels become more fragmented and less trusted. The growth of its influence poses challenges and opportunities for marketers. (p. 2)

Trust and believability are of extreme importance in advertising. In the early days of photography (before the advent of digital editing software like Photoshop that could manipulate images), the use of photographs in ads was a major step forward in aiding advertisers' ability to convey a realistic preview of a product, service or user experience. Moving pictures, commonly called videos today, can be photographed, edited, and shared via digital hardware and software products that are widely available at low cost. Once these videos are uploaded, they can become powerful marketing communications tools (Bender, 2006; Sapienza, 2007).

Because blogs are inherently designed to be dynamic they can be "attractive to both frequent visitors as audience members who wish to stay current with the content addressed on one or more blogs, and to Internet search engines" (Lahm, 2006; Why Blog?, 2011). "Blogging supports search engine optimization, where each blog post becomes its own Web page for search terms" (Halligan, 2008). This is because Search engines are designed by their nature to index "content" (Baker, 2005; Why Blog?, 2011), and blogs—assuming they have fresh content (Saeks, 2010) are therefore regularly visited by search engines. According to an article in *Public Relations Tactics* (published by the Public Relations Society of America): "Among the top 200 blogs on the Web, ranked by unique visitors per month, those that average at least three posts per day have two and a half times as many visitors as those that post less frequently" (Sullivan & Krall, 2008).

"Blogs are increasingly becoming an integral part of news consumption and have the potential to influence journalism practice" (Chung, et al., 2007). A study conducted by the Society for New Communications Research regarding journalists' adoption of new social media tools and technologies found that "2009 data shows explosive growth in the adoption of social media tools and technologies across all data sets" (McClure & Middleberg, 2009); overall the study found that nearly 70 percent of journalists are using social networking sites (which include blogs—66 percent use blogs). Thus, it follows that to maximize the effectiveness of their marketing efforts, "small businesses need to incorporate current social media tools and strategies that build traffic, engage with customers and give people something to remember—and talk about—online" (Manfield, 2010).

CONCLUSION

The "entrepreneurial blogosphere" provides a forum for small businesses to leverage audience communication and participation for marketing outreach. As such, scholars within the discipline of entrepreneurship should embrace the importance of the blogosphere within the practical community, and aggressively pursue the topics of blogging and the blogosphere as subjects under study in their future research efforts.

It is widely recognized by practitioners and media/PR experts that static websites are no longer the most effective means by which entrepreneurs can attract an audience, as blogs (i.e., content management systems) have evolved to serve as a robust software platform which allows

businesses and consumers to be fully engaged with one another. The software for creating blogs is readily available, and does not require the user (e.g., small business owner) to have programming expertise. To users, blogs are like many other technologies; one sees the “shiny outside,” but not “under the hood,” and much like a car—to employ an analogy—one does not necessarily have to know exactly how the technology works to arrive at his or her destination. Ease-of-use or low cost alone does not necessarily justify the use of blogs. However, when used as a means to deliver audio, video, screencast, photographic and textual content, as well as to receive two-way communications and feedback from customers, blogs are unique in their suitability as a means to foster a dynamic and interactive relationship with customers.

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PRICING PRACTICES IN VERY SMALL BUSINESSES

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ABSTRACT

This paper studies the pricing policies and practices by small business managers/owners in northeast Louisiana. In particular, the question whether small businesses follow the same well-established economic principles and marketing practices as large businesses is examined. Five hypotheses were developed and analyzed. First, prices are set to maximize profits. There is no support for this hypothesis in the data. Second, prices are strongly influenced by competitors' pricing. There is very limited support for this hypothesis. Third, prices are strongly influenced by cost factors. Fourth, prices are changed in response to changes in cost or market conditions. Fifth, other options besides price changes are used to impact sales. There is strong support in the data for the third, fourth and fifth hypothesis. Thus, there is very strong evidence that small business managers and owners behave as economic theory would suggest when making pricing decisions except when it comes to trying to profit maximize. Managers are more concerned with making a "satisfactory" profit, then with making the maximum profit.

INTRODUCTION

There are many well-established principles that economists rely on when explaining the optimal behavior of large firms regarding their goals, pricing strategies and other decisions. Pricing policy is treated slightly differently, though not inconsistently, in the field of marketing. While economists traditionally assume that consumers and business people have perfect knowledge of the market place, in the actual marketplace the lack of perfect knowledge by both consumers and businesses requires the establishment of a pricing policy. Although most large businesses follow these general pricing guidelines, the question raised is do very small businesses use similar pricing guidelines? This study will exam the behavior of small businesses in northeast Louisiana to ascertain if small businesses follow the same principles in pricing their products and services that are generally followed by large businesses.

BACKGROUND

Large businesses use well-established economic principles to guide them in developing goals, pricing strategies and other similar decisions. From microeconomics textbooks such as

Hyman (2010) and Parkin (2012) to managerial economics textbooks such as Keat & Young (2009) and Thomas & Maurice (2011), the basic principles of price theory are well documented and thoroughly explained. General economic theory suggests that :

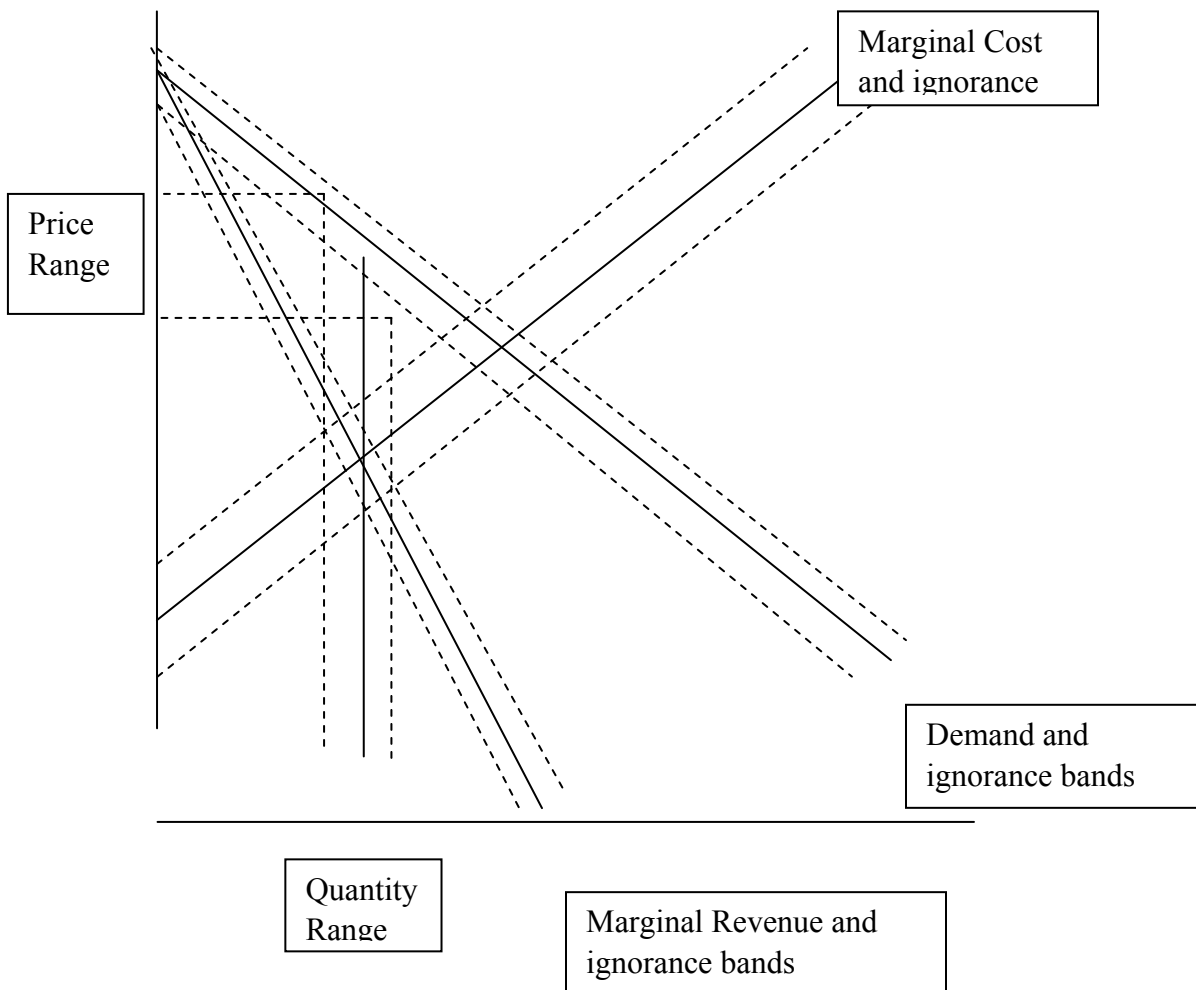
- a. The objective of the firm is to maximize profits.
- b. Optimal prices are chosen based on the demand the firm faces in order to at least cover variable costs and to meet the goal of profit maximization.
- c. Changes in the optimal price will occur in response to changes in costs or market conditions.
- d. Competition can be undertaken in ways other than price changes.

More specifically, for example, Hyman (2010) states "...models based on the assumption that those who operate firms seek to maximize profits have proved to be very fruitful. These models have consistently yielded hypotheses that empirical evidence has supported." (Chapter 8, page 7) Parkin (2012) further describes the pricing decision as "It (the firm) produces the quantity at which marginal revenue equals marginal cost and then charges the price that buyers are willing to pay for that quantity..." (p. 327). Thomas and Maurice (2011) describe in great detail how firms would respond to changes in costs (pp. 404-415) and changes in demand (pp. 476-477). They conclude that if costs increase, firms should respond by reducing output and increasing price. If demand increases, firms should respond by raising output and raising price. Keat and Young (2009) postulate different ways in which firms can compete rather than through price. These forms include "(1) advertising, (2) promotion, (3) location and distribution channels, (4) market segmentation, (5) loyalty programs, (6) product extensions and new product development, (7) special customer services, (8) product "lock-in" or "tie-in", and (9) preemptive new product announcements." (pp 367-368).

These principles, as noted above, are generally used by most large businesses. The question is whether these principles that guide the behavior of large businesses are applicable to small businesses and do small businesses recognize these principles and follow them? Haynes (1964) conducted a study of 88 small firms using an intensive interview process to determine the pricing process of small businesses. He finds that many managers in the study group did not attempt to profit maximize, but rather had "ethical objections" to charging "what the market will bear" (p. 323). Costs of production play a major role in the pricing decision, but not in a simple "cost-plus" mechanical way. Managers also indicate considerable adjustments based on market structure or competition. In another study using interviews of 20 small business owner-managers, 10 of which operated manufacturing facilities and 10 other were in the service sector, Curran (1997) concludes that although costs do form the basis for pricing decisions, the additions to costs vary widely and are determined by many different objectives, not just profit maximization.

The teaching of price policy in business school marketing classes is treated slightly differently, though not inconsistently, from the teaching of price policy in economics classes. Economists traditionally assume that consumers and business people have perfect knowledge of the market place. In that case, price will be set in order to sell the optimum quantity. If set higher, the firm will be unable to sell the quantity it wants to; if set lower, the firm will find it beneficial to raise the price.

Figure 1



In the actual administration of price policy by business people (see above Figure 1), the lack of knowledge by both consumers and business people allow for a price policy. In that case, there is a band of ignorance around the demand, marginal revenue and marginal cost curves. The price and quantity magnitudes will then be expressed as a band depending on the level of

ignorance. Less ignorance will result in a narrower band. As a result, a price policy becomes possible.

Most marketing textbooks discuss price policy (strategy) from the point of objectives, levels, and methods. The typical objectives include profit maximization, satisfactory profits, volume, meeting competition, and others. Levels discussions revolve around pricing above, with or below competitors. Methods involve how to set price specifically, cost plus and demand based. See Boone and Kurtz, 2006; Lamb, Hair, and McDaniel, 2009; and Lascu and Clow, 2008. Entrepreneurship and Small Business textbooks follow this basic model, though in more abbreviated form, for discussing pricing, Carland and Carland,, 1998; Ibrahim and Ellis, 1993; Baumbeck, Lawyer and Kelly, 1973; Scarborough, 2011; Longenecker, Moore and Petty, 2000; and Hodgetts and Kuratko, 1995.

PURPOSE OF STUDY

The purpose of this study is to determine if small firms use established economic principles that economists rely on when explaining the behavior of large firms regarding pricing objectives and strategies.

RESEARCH METHODOLOGY

Although the economic principles used to explain pricing behavior are well accepted as accurate when describing large firms, the question remains whether they are appropriate for small businesses. In other words, do small businesses follow the model? Thus, the general hypothesis of this study is:

Hypothesis: Small businesses generally following the basic principles of economic theory in setting and maintaining prices for their products and services.

Consideration of the general hypothesis resulted in the development of questions revolving around four basic decisions. First, is the entrepreneur looking to maximize profits, just make a satisfactory living, maintain a particular market share, or all of the above to some extent? Second, are initial prices set in order to match competitors' prices, be a little above them or a little below them, or be determined independently of what competitors are doing? Third, should the initial price be based on a cost-plus pricing model, a customer demand model, or a competitors' prices model? Fourth, do changes in price result due to changes in cost, customer demand, or what competitors did? Fifth, are other options for competing being used? Thus, five sub-hypothesis are developed to help test our general hypothesis. These are:

Hypothesis 1: Small businesses set their prices to maximize their profits.

Hypothesis 2: Small businesses' prices are strongly influenced by competitors' pricing.

Hypothesis 3: Small businesses' prices are strongly influenced by cost factors.

Hypothesis 4: Small businesses change their prices in response to changes in costs or market conditions.

Hypothesis 5: Small businesses use ways other than price changes to impact their sales.

Questionnaire development

In order to attempt to shed light on the above hypotheses, a questionnaire was designed specifically to ascertain the basic price decision-making rules of very small businesses in northeast Louisiana. A series of questions were developed to shed light on the attitudes of owners and managers of small businesses toward pricing their products and services. Respondents were asked to indicate whether they agreed or disagreed with a number of general statements concerning pricing decisions in their business. The questionnaire was reviewed by faculty knowledgeable in questionnaire development and distributed to a convenience sample of owners and managers of very small businesses in northeast Louisiana by students enrolled in an Entrepreneurship class.

Sample characteristics

Questionnaires were hand delivered by students in an entrepreneurship class to the owners and managers of very small businesses in northeast Louisiana. Since the students waited for the completion of the questionnaires, the return rate was 100%. That is, 100 questionnaires were distributed and 100 questionnaires were completed and returned. Table 1 shows the sample characteristics of the sample.

The study was targeted to very small businesses resulting in a sample of 100 respondents, 68 respondents (75.6% of the sample) were involved in businesses employing five or fewer employees; 9 respondents (10%) in businesses employing six to ten employees; and 13 respondents (14.4%) in businesses employing over eleven employees. As expected in very small businesses, most of the businesses were either retail (39.4%) or service (54.5%). Also as expected in northeast Louisiana, two thirds of the respondents (66.3%) claimed a rural location for their business and the other one-third (33.7%) claimed an urban location. All of the small businesses felt the impact of competition on their day-by-day activities. Only 12.6% of the businesses claimed a market share of over 50%, while 21.1% perceived a market share of under

10%, 25.3% perceived a market share of 11-25%, and 37.9% perceived a market share of 26-50%.

Table 1. Entrepreneurial Characteristics					
Sex			Marital Status		
	Frequency	Percent		Frequency	Percent
Female	41	6.0	NR	5	5.0
Male	59	8.6	Single	12	12.0
Total	100	14.6	Single/children	4	4.0
Race			Married/children	67	67.0
NR	3	3.0	Married wo chil	8	8.0
White	73	73.0	divorced/separated	4	4.0
African American	19	19.0	Total	100	100.0
Asian	4	4.0	Age		
Hispanic	1	1.0	NR	3	3.0
Total	100	100.0	under 30 years	6	6.0
Education Level			30-50 years old	58	58.0
High School	25	25.0	Over 50	33	33.0
Some College	23	23.0	Total	100	100.0
College Degree	36	36.0	Line Experience		
Masters Degree	4	4.0	Yes	50	50.0
Graduated/Professional	12	12.0	No	50	50.0
Total	100	100.0	Total	100	100.0
Business Characteristics					
Type Business			Full-time Employees		
	Frequency	Percent		Frequency	Percent
NR	1	1.0	NR	10	10.0
Retail	39	39.0	0-5	68	68.0
Service	54	54.0	6-10	9	9.0

Distribution	3	3.0	11 and over	13	13.0
Contractor	3	3.0	Total	100	100.0
Total	100	100.0	Part-Time Employees		
Rural or Urban				Frequency	Percent
NR	2	2.0	NR	40	39.6
Rural	33	33.0	0-5	46	45.5
urban	65	65.0	6-10	7	6.9
Total	100	100.0	11 and over	8	7.9
Market Share			Total	101	100.0
NR	5	5.1			
Under 10%	20	20.4			
11-25%	24	24.5			
26-50%	36	36.7			
over 50%	13	13.3			
Total	98	100.0			
* Percentages are computed without non-responses included in the total.					
** Data on part-time employees was gathered but 40% of the sample failed to respond to the question.					

Respondents in the sample were mostly (60%) male. The racial demographics followed the general pattern of small businesses in northeast Louisiana with 75.3% of the sample white, 19.6% African American, and 5.1% Asian or Hispanic. The age of the sample mirrored other studies in northeast Louisiana that suggested the decision to open a small business was generally made later rather than early in life. Only 6.2% of the respondents were under 30 years of age while 59.8% were between 30 and 50 years of age, and 34% were over 50 years of age. Almost four-fifths of the respondents in the sample (78.9%) were married. Interestingly, over one-half of the respondents had a college degree (36%) or higher (16%) while 25% only graduated from high school and 23% had some college education.

FINDINGS

Analysis of the data reflects the attitudes of respondents concerning general statements involving the five basic decisions outlined above. First, what is the objective of the

entrepreneur? Second, what are initial prices based on? Third, what causes price changes? And fourth, do the small businesses try to compete in ways other than price?

Objectives of pricing

As can be seen in Table 2, the entrepreneurs in the sample did not agree on a single basic pricing objective. In responding to the question, “When setting prices, I always try to maximize profits, get a satisfactory profit, cover my variable costs, or maintain or increase my market share,” a large majority of respondents selected them all as important elements in their decision. While almost 83 percent of the entrepreneurs believed that making at least a satisfactory profit was important in pricing their products or services, only 65 percent believed in maximization of profits. In the area of non-profit based objectives, only 59 percent of entrepreneurs were concerned with maintaining market share while over 80 percent felt that pricing must cover variable costs. Although small business men and women make their pricing decisions more on profitability than upon maintaining market share, making a "satisfactory" profit is more important to them than profit maximization. Thus, it appears Hypothesis 1 cannot be supported by this study.

Table 2” Percent of Respondents Indicating Agreement With the Statement			
When setting prices I always try to	Disagree	Neutral	Agree
Maximize Profits	7.3	27.8	65.0
Make Satisfactory Profits	5.0	12.1	82.8
Maintain Market Share	13.6	27.1	59.4
Cover Variable Costs	6.3	13.5	80.2

Price relative to competitors

Respondents were asked how prices were set relative to their competitors. As can be seen in Table 3, about one-half of the entrepreneurs in the sample (52.1%) felt that they should match their competitors’ prices. While almost an equal number of entrepreneurs disagreed or agreed with the concept of pricing below their competitors’ prices (38.8% and 33.6 respectively), an overwhelming numbers of entrepreneurs disagreed rather than agreed to pricing above their competitors prices (54.2% and 17.5% respectively). Thus, it seems that the majority of entrepreneurs in this sample usually set their prices to match competitors’ prices and lean heavily toward not being above their competitors’ prices. Thus, there is some evidence in this sample to support Hypothesis 2.

“When setting prices for my products or services, I usually set my prices....”	Disagree	Neutral	Agree
Below My Competitors	38.8	27.6	33.6
With My Competitors	12.3	35.7	52.1
Above My Competitors	54.2	34.4	11.4

Determinants of price

Should price be cost based, customer based, or competitor based? As reflected in Table 4, most entrepreneurs consider all of these factors in the initial price-setting decision. Interestingly, costs appear to have the most influence in setting prices with almost 82 percent of the respondents feeling that costs of goods sold are important factors in price setting and almost 78 percent feeling that overhead costs are also important in price setting. Over 72 percent of the respondents feel that a customers’ willingness or ability to pay is an important factor in price setting and over one-half of the respondents (54.6%) are willing to make special pricing decisions for special customers. Although competitors’ prices are important in price setting—with almost 63 percent of the respondents feeling it is an important element in determining prices—it appears to have the lowest impact on price setting than any of the other factors. Thus, there is strong evidence in support of Hypothesis 3.

“When setting the price initially on my products or services, I carefully consider my...”	Disagree	Neutral	Agree
Cost of Goods Sold	7.4	10.5	81.9
Overhead Costs	5.1	17.3	77.5
Competitors' Price	23.7	13.4	62.8
Customers Willingness to Pay	9.1	18.4	72.4
Special Customers*	22.7	22.7	54.6

* Individual or special customers such as senior citizens, students, large quantity customers, etc.

Factors considered in changing prices

Once prices are set, when and how should the entrepreneurs change these prices? Tables 5 through 9 indicate the attitudes of entrepreneurs toward price changing. Factors that influence an entrepreneur to consider changing prices are shown in Table 5. The most significant factor leading to a price change appears to be costs with 83.2% of respondents feeling costs of goods sold and 82.8% feeling that overhead costs are important factors in initiating a price change. Although competitors' pricing is important, only about 50 percent (51.5%) of the respondents indicated it as an important factor in deciding whether or not to change prices. Customers appear to have only a minimum influence on initiating a price change with only about 40 percent (39.8%) of the respondents considering it an important factor in changing prices.

"Before changing prices I carefully consider my...."	Disagree	Neutral	Agree
Cost of Goods Sold	8.5	8.4	83.2
Overhead Costs	9.1	8.1	82.8
Competitors' Price	27.9	20.6	51.5
Customers Willingness Income/Lifestyle	37.8	22.4	39.8

Table 6 suggests entrepreneurs actually change prices to offset costs changes with 53 percent agreeing with the statement that "I always change prices when costs change" and 42.7 percent agreeing to the statement that "I always change prices when inflation changes". Only 35.1 percent of the respondents agreed they change prices to match competitors' prices and very few had a periodic system of price changes—19.5% changed prices annually and 7.3% change prices every few months.

"I always change prices when...."	Disagree	Neutral	Agree
Costs Change	23.4	23.5	53.0
Competitors' Price Change	46.4	18.6	35.1
Inflation Changes	32.3	25.0	42.7
Every Few Months	83.5	9.3	7.2
Once a Year	65.0	15.5	19.5

When the question of price changing was more narrowly focused to keeping up with price changes of competitors, a similar result was found. That is, this sample of entrepreneurs does not appear to be greatly concerned with competitor pricing. As can be seen in Tables 7 and 8, only 9.3 percent of the entrepreneurs would always change their prices when one of their competitors changed prices and only 32.6 percent would always change their prices when most of their competitors changed prices. The entrepreneurs in the sample did, however, express a strong sentiment toward thinking about changing prices when one of their competitors or most of their competitors changed prices, 52% and 60.9% respectively.

	Disagree	Neutral	Agree
“If <u>one</u> of my competitors change prices, I...”			
Always Adjust My Price	68.1	22.7	9.3
Always Think About What I Should Do	24.5	23.5	52.0
Never Worry About It	64.6	17.2	18.2

	Disagree	Neutral	Agree
“If <u>most</u> of my competitors change prices, I...”			
Always Adjust My Price	35.7	31.6	32.6
Always Think About What I Should Do	15.5	23.7	60.9
Never Worry About It	64.6	17.2	18.2

As can be seen in Table 9, individual customers received very little consideration when they raised concern over the pricing of products or services. A large majority of the entrepreneurs disagreed with adjusting prices for a single customer (59.1%) or adjusting prices for all customers (67%) based upon customers’ objections to prices. Thus, the data presented in Tables 5 through 9 indicate strong support for Hypothesis 4.

	Disagree	Neutral	Agree
“If or when a customer objects to my price, I...”			
Always Adjust My Price	59.1	11.2	29.6
Always Think About What I Should Do	67	21.6	11.3
Never Worry About It	63.3	17.3	19.4

Non-price factors

Previous analysis was concerned primarily with the factors of costs, customers and competitors on pricing decisions. We also asked our sample if they tried to compete in ways other than through price such as with their product, location, etc. The overwhelming majority of respondents (77%) said that they tried to compete in ways other than through price. Thus, Hypothesis 5 is strongly supported.

Interestingly, although the large majority of respondents said they tried to compete on the basis of something other than price, when asked about a few selected actions, there wasn't much expectation that they would matter. As presented in Table 10, our sample of small business owners/managers did not believe strongly that short-term price reductions or advertising on the radio or television or in the newspaper would have much of a positive impact on sales. Short term price reductions were believed to have a positive impact on sales by only 39.4% of the respondents; radio advertising by 34.7%; TV advertising by 32.0%; and newspaper advertising by 31.3%.

Table 10: Percent of Respondents Indicating Agreement With the Statement			
"I believe that the following actions will have a positive impact on my sales"	Disagree	Neutral	Agree
Reducing Prices*	42.2	18.2	39.4
Advertising on Radio	37.8	27.6	34.7
Advertising on TV	40.2	27.8	32.0
Advertising in Newspapers	36.4	32.3	31.2
*Reducing prices for a short period of time such as a sale			

CONCLUSIONS

We can conclude from this study that very small businesses in northeastern Louisiana generally follow the basic principles of economic theory in setting and maintaining prices for their products and services. Four of the five sub-hypothesis have been supported in this study. In setting prices, small businesses appear to be strongly influenced by competitors pricing and costs factors. In changing prices they continue to be strongly influenced by changes in costs or market conditions. And an overwhelming majority of the small businesses try to compete in ways other than pricing.

The only exception to following the basic principles of economic theory on price setting was found in the sub-hypothesis of profit maximization. Although 65% our sample of small businesses agreed to the statement “When setting prices I always try to maximize profits,” when asked about making satisfactory profits or covering variable costs, these other factors were more important. Over 82% of the respondents agreed with the statement of always trying to make satisfactory profits while 80% agreed with the statement of always trying to cover variable costs. Thus, although it appears that small businesses generally following the basic principles of economic theory on pricing, they are more concerned with covering variable costs and making a satisfactory profit than in maximizing profits.

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THE ENEMY WITHIN: A STUDY OF EMPLOYEE CRIMINAL ACTIVITY AND ITS IMPACT ON BUSINESS

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ABSTRACT

Now, more than ever, businesses may fail due to criminal activities of others. For years, sociologists and others studied the relationship between economic cycles and increases in crime. While certainly there are other variables that contribute to increases in crime, evidence suggests that the current recession will fuel crime increases ranging from shoplifting and robbery to fraud and embezzlement. This paper presents a model for businesses to use in the prevention and detection of criminal activity as well as prescriptive measures to help reduce the impact of criminal activity targeting business.

INTRODUCTION

Economic cycles indicate that during more difficult economic times, criminal activity increases. Experts (Levisohn, 2009) believe that fraud in particular, increases during recessionary times. James Short (1980) compiled a number of comprehensive studies on the relationship between crime and economic cycles examining a series of studies dating back into the 1800's. Although numerous variables and circumstances make comparisons difficult, Short concluded that "some connection" exists.

According to the National White Collar Crime Center, the two most recent recessions recorded significant increases of arrests for fraud and embezzlement (Business Week Online, January 12). In 1990, just after the savings and loan crisis, arrests increased 52% and in 2000, after commercial Internet development, arrests increased 25% (Business Week Online, January 12). Arvanites and Defina (2006) examined business crime activity and economic cycles from 1985 to the early 2000's and also report a relationship between the two.

Businesses, already susceptible to a wide variety of crimes, need to be on their guard to prevent the impact of criminal activity from impacting profitability to the point that the viability of their business comes into question. Crimes against companies range from shoplifting and vandalism to piracy and counterfeiting. In some instances, crimes committed against businesses are committed by outsiders while in many other situations, employees at all levels commit crimes against their employers. In some cases, companies become unwitting accomplices of money-laundering crimes.

Crimes committed against business are nothing new. The literature records numerous examples throughout history. By 1995, the SBCI survey found 35% of retailers reporting

customer theft with similar percentages for manufacturing and wholesaling industries. In all, 75% of surveyed businesses reported one or more incidents of crime, with 3.5 incidents on average (Burrows and Hopkins, #####).

Small businesses may be particularly vulnerable to crime as small businesses often do not have safeguards in place to prevent and detect criminal activity. As early as 1996, (prior to Internet crime) a survey of 400 firms conducted by the U.S. Small Business Administration found nearly 13% of surveyed businesses became crime victims. Further, less than half (48%) employed any security measures and many incidents, especially employee thefts, went unreported (Small Business Research Summary, 1997).

How much does crime against business cost? According to the 2007 report *Crime in the United States*, stolen office equipment alone totaled a staggering \$656,982,032. Burglaries on average cost businesses \$1,989 and shoplifting which recently increased 11.2% cost businesses an average \$205 per incident. Several recent high-profile cases of fraud include the Madoff investment scandal (\$50 billion) and the Stanford investment scandal (\$20 billion). Just a few years ago, newspaper headlines shocked readers with news of the Enron and WorldCom financial scandals (Off to Jail, 2005; Schickel, 2005). By 1991, cost estimates of crimes committed against businesses reached \$128 billion in direct costs (Thompson et al, 1992). Estimates are difficult to determine as many business crimes go unreported (especially in small businesses) for fear of bad publicity and loss of investor confidence but by 2006, even prior to the current recession, Federal Bureau of Investigation crime data list the figure at \$652 billion annually (cited in Bressler, 2007).

LITERATURE REVIEW

Types of crimes

Since the development of the Internet, cybercrime activity is increasing at an alarming rate. The 1995 National Computer Crime Survey reported 67 percent of the 7,818 businesses surveyed fell victim to at least one cyber attack (Bureau of Justice Statistics, 2008). Many of the cyber attacks involved theft (60%) while other incidents included viruses uploaded to the business computer system. Sixty-eight percent of the cyber attack thefts resulted in a monetary loss of \$10,000 or more (Bureau of Justice Statistics, 2008).

Yueh (2004) reports businesses suffered a 40% increase in computer attacks over the previous year. The 150,000 computer attacks resulted in a cost to business of \$42 billion (Yueh, 2004). Security consultant Richard Stienon (cited in Elms, et al.) believes cybercrime to be the major threat to computer infrastructure, business processes and businesses themselves. Another study, conducted in 2001 by IDC in Massachusetts, found 95% of IT managers at medium and large U.S. companies experienced various computer attacks.

According to a study conducted by IDC computer consultants in 2000, 95% of IT managers experienced at least one incident of computer systems breach (Gantz, 2001). By 2004, companies increased spending on information technology security systems to an estimated \$30 billion, more than double since 2001, to protect corporate websites (Gantz, 2001). Despite the increased need for computer security, only 30% of companies reported that their company encrypted email.

The 2005 National Computer Crime Survey prepared by the U.S. Department of Justice finds 67% of surveyed companies indicated at least one cybercrime committed against their business (U.S. Department of Justice). According to the survey, 68% of crime victims reported losses of \$10,000 or more from cyber-attacks. Surprisingly, only 15% of businesses reported the cyber-attacks to police or other law enforcement agencies. The Federal Bureau of Investigation now lists cybercrime their third-highest priority, just behind terrorism and espionage (Elms, 2008)

Banks can be especially vulnerable to criminal activity. Criminal activities ranging from robbery and money laundering to ATM fraud will send banks scrambling to increase security measures. One estimate indicates the costs of crime that businesses incur amounts to “69% of after- tax corporate profits” (Thompson et al, 1992).

Table 1. Types of employee crime
Theft, or cash skimming
Theft of inventory, equipment or merchandise
Writing company checks
Money laundering
Processing fraudulent invoices
Payroll fraud
Falsifying revenue reports
Customer identity theft
Intellectual property theft
Overstated expense reports
Credit card fraud

While vandalism may not seem to be especially serious when compared to other crimes committed against businesses, the U.S. Small Business Administration reports the average vandalism incident costs small business \$3,370 (http://www.nfib.com/object/IO_31210.html). Put another way, a small business with revenues of \$500,000 per year and a net margin of 5% would lose approximately 13.5% of their annual net profit.

In a study for the National Federation of Independent Business, Dennis (2008) reports 52 percent of businesses became victimized by crime within the previous three years. The report also noted vandalism as the most common crime committed against small businesses in general, and shoplifting most common to the retail industry.

The U.S. Chamber of Commerce (cited in Kuratko et al., 2000) in 1995 reported that employee dishonesty accounted for as many as 30% of all small business failures. Their report also goes on to state that small businesses are 35 times more likely to become crime victims than larger companies. The National Council of State Legislatures' publication reports retail crime now exceeds \$30 billion dollars per year, resulting in \$1 billion in lost tax revenues (National Federation of Independent Business).

Crimes committed against retail establishments come to our attention more often as they may occur locally and upon businesses we frequent. According to Casteel et al. (2004) certain businesses, such as liquor and convenience stores experience significantly higher rates of crimes, particularly employee death. The recent economic downturn may also account for increased shoplifting. In a news story just before Christmas, Shafer (2008) reported that a source at the Mall of America indicated an 18% increase in shoplifting reported over the previous year. Shafer also mentioned a Post survey of 52 national retailers by the Retail Industry Leaders Association indicating an 84% increase in shoplifting at their stores.

Recently, Best Buy was swindled out of \$31 million in an elaborate bid-rigging scheme (Best Buy Swindled, 2009). Best Buy became a victim of the scheme in part due to a lack of internal controls that otherwise would have sent "red flags" to the attention of auditors. In another case, as if the housing market slump wasn't enough, Lennar homebuilders recently became victim to a Ponzi scheme (American Banker, 2009). A Ponzi scheme refers to a fraudulent investment that returns money only to early investors by using money obtained from later investors, rather than actual investment profits (Wikipedia). In a 2005 study, the Association of Certified Fraud Examiners found the average business loss due to fraud or embezzlement to \$159,000, although the average loss for a business with fewer than 100 employees to be \$190,000 (cited in Larimer, 2006).

According to Marten and Edwards (2005), three conditions must be present for employees to commit fraud. The first condition is incentive, often in the form of some type of pressure. Pressure may be due to financial reasons, sometimes associated with extra money needed for an adulterous relationship. In other cases, financial pressure could be due to excessive medical bills, gambling debts, or drug addiction. Opportunity exists when businesses fail to develop safeguards or become too trusting of employees. Rationalization occurs when an employee justifies their action as the company "owing them".

In each of these three conditions, company's management can institute safeguard procedures to reduce the possibility of an employee to use these conditions as an entry to committing fraud. Background and credit checks can identify employees who might be more prone to financial pressures. Fraud hotlines can be established to allow reporting of suspicious

employee behaviors, including recent expensive purchases. Opportunity can be lessened when companies develop safeguards through unscheduled audits, use of Accounting Information Systems (AIS) software, and basic procedures such as check approvals. Rationalization may be more difficult to prevent, however, Ethics Statements and management setting good examples may be effective ways to thwart employee rationalization.

Embezzlement may perhaps be the most serious crime impacting business, in that many times the crime goes undetected for years. Embezzlement affects not only large business but small business, government agencies and non-profit organizations. As so many instances of embezzlement go unreported to police, experts can only estimate the extent of embezzlement activity. Costello (2003) reported that according to an estimate by the National White Collar Crime Center, embezzlement may cost companies as much as \$90 billion each year. An employee working at the cafeteria of a state prison in Georgia reportedly skimmed \$1.5 million from the cafeteria cash registers over the course of several years (Costello, 2003). In another Georgia case, an employee stole \$300,000 worth of postage stamps from the University of Georgia (Costello, 2003).

According to the Federal Bureau of Investigation, during the period from 1994-2002, intellectual property theft increased 26%. In addition, increased money laundering activity also includes small businesses, often facilitated by an employee or third-party. The FBI further goes on to state that money laundering often couples with other felonies including drug trafficking, fraud or embezzlement.

Inventory shrinkage

A 1994 University of Florida study (cited in Kuratko et al.) examined causes of inventory shrinkage and found employee theft accounted for 42.1 percent and 32.4 percent to shoplifting and improper paperwork. Shoplifting affected 695,387 retailers with an average loss of \$194 per incident (Sourcebook of Criminal Justice Statistics Online). The U.S. Small Business Administration reports stock loss ranging from 1.3% to 7% of sales. That means for a small business with sales of \$1 million per year, stock losses may account for as much as \$70,000. Put another way, a small business with a net profit of 5% could actually lose money (Curtailling Crime). A study by the U.S. Chamber of Commerce reports as many as 30% of small business failures the result of crime (U.S. Chamber of Commerce, 1995).

Economic downturns often may account for an increase in shoplifting. Just before Christmas a source at the Mall of America reported a 19% increase in shoplifting (Shafer, 2008) and several police departments in the Philadelphia area also reported increased shoplifting at area stores. A Post survey of 52 national retailers conducted by the Retail Industry Leaders Association reported an 84% increase in shoplifting (Shafer, 2008).

To reduce inventory shrinkage, companies need to employ two different tactics. Preventing shoplifting calls for surveillance cameras, mirrors and security guards. Preventing

employee theft of merchandise or equipment may use those same techniques but in addition companies can also utilize background checks, honesty tests and regular inventory checking.

Type of Crime	Number of Incidents	Cost	Cost per Incident
Burglary	700,239	\$1.4 Billion	\$1,991
Shoplifting	785,228	\$1.6 Billion	\$205
Embezzlement	15,151	\$20.9 Billion	

*estimated, many unreported
Source: Crime in the United States, 2007

Small Businesses, big targets

Despite fewer employees and smaller revenues, small businesses may be more susceptible to business crime. As most businesses are small businesses, nearly half of the U.S. workforce is employed in small businesses. The Association for Certified Fraud Examiners indicates 39% of reported instances of fraud occur in companies with 99 or fewer employees (Bank Technology News). The U.S. Small Business Administration reports 13% of small businesses become crime victims, yet less than half (48%) instituted any preventive measures (Small Business Research Summary). This could be a major reason why crime is a major factor in up to 30% of small business failures (U.S. Chamber of Commerce). In addition, small business ventures with less than \$5 million in annual revenues may be up to thirty-five times more likely to become a crime victim than their larger counterparts (U.S. Chamber of Commerce).

Unfortunately, small business owners prosecute less than 30% of fraud cases (Larimer, 2006). Many crimes committed against small business go unreported to police for a variety of reasons. In some cases, crimes committed by employees or local persons known to the business owner go unreported as the business owner might not want to press charges for fear of negative publicity or loss of confidence in the business. In other instances, such as vandalism, small business owners might assume that police would be unable to apprehend and charge the vandals.

DISCUSSION

Crime Prevention Strategies

Welsh and Farrington (1995) offer four crime prevention strategies: situational, developmental, community and criminal justice prevention. Situational strategy refers to surveillance techniques using employees, alarms or video monitors. A Developmental Strategy

involves examining the root causes of crimes against businesses such as juvenile delinquency, poverty and economic cycles. Community strategies utilize various social experiments and neighborhood watch programs. Criminal Justice prevention programs develop partnerships between law enforcement and the community.

A model program in New York City (Kugel, 2003) designed to help bodegas (Mom and Pop grocery stores) by installing security cameras secured backing from the mayor and the police. According to a survey by a bodega owner's association, nearly 35% of crimes went unreported to police. Despite the fact that bodega owners typically do not report crime to police, a recent surge in killings during robberies prompted store owners to become more involved in working with law enforcement (Kugel, 2003).

Among retailers, liquor stores report higher rates of employee injury or death than other types of retail establishments (Casteel et al, 2004). Comparing two groups of stores, one with an environmental design intervention and the other group without, researchers found a significant reduction in robberies and shoplifting among stores using environmental design. Environmental design programs utilize structural design methods for both outside buildings as well as interior layouts. Without cover, criminals are more visible to surveillance cameras and security guards and it is also more difficult to surprise employees on duty.

The best strategy to defend against business crime should focus on preventive measures. For many businesses, simple actions such as improving security lighting or requiring employee identification may reduce crime. Crime preventive actions can be categorized into external measures, to include security lighting, surveillance cameras, locks, and key control; employment policies that include background checks, drug testing, employee identification, and separation of duties; computer defenses that include secure websites, access authorizations through secure passwords, computer firewalls, and secure Internet payments. Finally, everyday work practices such as keeping minimal amounts of cash on hand, requiring employee identification, paying everything by check and not delegating check signing provide basic defenses against internal and external crime (see Figure 1).

With recent headline stories of investment fraud impacting individuals, businesses and non-profits, government at the state and national level will begin to more closely scrutinize investment activity. At this point, however, the U.S. Government Accountability Office admits that the current oversight system is too fragmented to be effective (Levisohn, 2009).

Employee crime prevention can begin with establishing sound hiring practices including background checks and drug testing. A 2002 Association of Certified Fraud Examiners study (cited in Wells, 2003) revealed that 7% of employees in the workplace have a history of theft or fraud. Background checks should also include a credit history report as some employees may resort to embezzling company funds when financial pressures from drug addiction, adultery, gambling or medical expenses seem insurmountable (Costello, 2003).

In one example, during the routine background check a company preparing to hire a new financial director found the applicant did not have the industry experience or the MBA degree he claimed (Business Week). Due to time and expense, many small companies skip background checks. However, Hogsett and Radig (cited in Kuratko et al, 2000) found 30% of employees steal from their employers and another 30% might be tempted to do so under certain circumstances.

Wade (2002) discovered some interesting findings in a South Carolina study of employee drug abuse. Employee drug abusers are injured on the job 2-5 times more often than other employees, are 26-31% less productive in their work, and are cited as a factor in 33-39% of product or service quality problems. Study findings also report a return of \$4 for every dollar invested in that treatment.

External	Internal
Robbery	Theft
Burglary	Embezzlement
Shoplifting	Fraud
Counterfeiting	Customer Identity Theft
Piracy	Sabotage
Money Laundering	
Vandalism	
Ponzi Schemes	
Computer Hacing	

Detection

Regardless how many preventive measures are employed, businesses will likely still become crime victims. The number and size of occurrences will likely be smaller. Detection techniques also tend to be low-cost and as simple as frequently checking bank statements, unscheduled audits and use of accounting information systems (AIS) software. AIS software uses “red flags” to indicate to the auditor where potential problems might exist. Despite the importance of unscheduled internal audits, the Association of Certified Fraud Examiners indicates that only 20% of internal audit departments actually perform unscheduled audits (Larimer, 2006).

Monitoring employee behaviors, especially radical changes in employee lifestyle may also indicate fraud activity. Employees suddenly purchasing luxury cars or boats, taking

expensive vacations or giving lavish gifts often warrant investigation. Fellow employees may assist and are now protected by whistle-blower protection afforded under the Sarbanes-Oxley Act (Yormak, 2004). Because most employers find out about instances of fraud from employees, vendors or customers, the Association of Certified Fraud Examiners suggests instituting a fraud hotline can reduce embezzlement by as much as 50% (Costello, 2003).

The importance of forensic accountants cannot be overstated. Because many white collar crime activities are often carefully concealed through numerous complicated business transactions, forensic accountants with their expertise can uncover criminal activity that otherwise might go unnoticed during routine audits. In addition, forensic accountants can be especially helpful when a firm plans a merger or acquisition to determine a company's true worth and insure that financial data is not misrepresented (DiGabrielle, 2008).

Remedies

When prevention isn't sufficient and detection activities find criminal activity, the business must determine the best way to minimize loss to the company. A Department of Commerce study of 400 small firms cited by the U.S. Small Business Administration, found that many crimes committed against small businesses went unreported. In fact, none of the businesses reporting employee theft reported the incidents to police (Small Business Research Summary). This, despite a study by the National Federation of Independent Business where 79% of small business owners reported confidence in local police (Dennis, 2008). Prosecution of criminal acts is important as otherwise the perpetrator simply moves on to the next corporate target. Many smaller businesses are uninsured or underinsured; therefore prosecution may assist the business in recouping some of the financial loss.

Expert witnesses, in many cases forensic accountants, play a key role in providing court testimony. As expert witnesses will be challenged by defense lawyers, forensic accountants should be trained in audit procedures, possess the necessary professional certification (such as Certified Internal Auditor, Certified Fraud Examiner, etc.) and be able to prepare findings in a professional manner that will sustain cross-examination by defense attorneys.

Usually the last resort for the business owner is to file an insurance claim. Smaller businesses may not have insurance or sufficient insurance to cover losses. According to a 2002 study by the National Federation of Independent Businesses, 15% of surveyed businesses do not carry business insurance at all and only 34% have business-interruption insurance.

Many types of business insurance coverage are available. The U.S. Small Business Administration recommends business owners purchase criminal insurance, general liability insurance, product liability insurance, worker's compensation insurance, Internet business insurance, key person insurance, home-based business insurance and malpractice insurance (U.S. Small Business Administration, Small Business Planner).

IMPLICATIONS

Several important implications can be drawn from this study. First, every business is potentially a crime victim. Crimes committed against your business can impact profitability and even lead to business failure. According to the U.S. Chamber of Commerce, as many as 30% of businesses fail as a result of crime, preventive measures should be taken to reduce the incidence and severity of crimes committed against your business (U.S. Chamber of Commerce, 1995).

Second, preventive measures cost significantly less than the cost to remedy crime committed against the business. Even small businesses can reduce the likelihood of becoming a crime victim and the severity of criminal activity with some fairly low-cost actions. Larimer (2006) reported that small businesses suffered greater losses from fraud than larger businesses, \$190,000 per incident versus \$159,000 for larger businesses. One study (Kuratko et al, 2000) found the typical small business spent \$7,805 on security measures. In other words, currently their losses are twenty-five times the amount spent on security measures. Increased spending for security measures could result in smaller losses.

Finally, those businesses that defend themselves against crime are less likely to become targets of criminal activity. While prevention tactics do not prevent your business from becoming a crime target, appropriate safeguards can reduce the likelihood and severity of criminal activity. Insurance companies often reduce insurance premiums when businesses install appropriate security measures. The business becomes safer for the owner, investors, and employees.

CONCLUSION

Even before the recession started, criminal activity directed at businesses began increasing at an alarming rate. In the past, the most common crimes committed against businesses included shoplifting, vandalism and embezzlement. Today, criminal activity occurs more often and includes a wider range of crimes including mortgage fraud, counterfeiting and piracy. As the cost of crime continues to escalate and cuts further into profits, businesses must increase preventive measures and develop more sophisticated methods to detect crime. Without employing a new crime prevention and detection strategy, many businesses could become unprofitable and susceptible to business failure.

Figure 1: A Three-Stage Model for Prevention and Detection of Business Criminal Activity

Prevention	Detection	Remedies
<ul style="list-style-type: none"> •Lighting •Minimal cash on hand •Key control •Check identification •Employee identification •Background checks •Authorization procedures •Locks •Pay everything by check and no use of manual checks •Do not delegate check signing •Outsource payroll •Computer firewalls •Secure passwords •Secure websites •Employee training •Burglar alarms •Surveillance cameras •Secure Internet payment •Separation of duties •Drug testing •Alarm systems •Equipment tagging •Ground-floor location •Security guards or guard dogs •Management setting an ethical example and ethics statements •Policy and Procedures manuals 	<ul style="list-style-type: none"> •Unscheduled audits •Internal auditors •External auditors •AIS software •Police •Monitoring employees •Lifestyle changes •Behavior indicators •Customer complaints •Financial statement analysis •Frequently check bank statements •Alarm systems •Scanning EBay and want ads •Reporting hotlines •Look for exceptions, such as manual checks 	<ul style="list-style-type: none"> •Insurance •Prosecution •Expert witnesses •Employee dismissal •Punitive damages •Settlements/negotiations

Source: Bressler, 2009

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SOUND FINANCIAL DECISION MAKING FOR ENTREPRENEURS: CAN THE GAAP CASH FLOW STATEMENT MISLEAD?

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ABSTRACT

A person who is “entrepreneurial” constantly seeks different and better products, services and processes. A process is how something is done and entrepreneurial thinkers search for better ways of doing things, instead of blindly accepting what is considered standard or required by others. For example Generally Accepted Accounting Principles (GAAP) are the standard guidelines and rules used to prepare, present, and report financial statements for a wide variety of entities, including small businesses. Even though GAAP provide the standard rules for reporting, are the methods really the best tools for small business owners to use when making business decisions? This paper provides an alternative approach to the indirect cash flow statement, called the Patton Cash Flow Statement (PCFS). After utilizing it with several business clients and then validating it in a controlled classroom environment, we contend that the PCFS is a better tool for small business owners to use when making financial decisions than what is currently required by GAAP.

INTRODUCTION

According to the U.S. Census Bureau, the annual number of start-up firms has been relatively stable for decades, hovering around 600,000 per year. Stangler and Kedrosky (2010) point out that the number remains constant over time despite changes in economic conditions and markets, and longer-cycle changes in population and education. Stable start-up rates require stable financial decision-making to ensure firm survival. Successful entrepreneurs provide change that spurs growth in our markets and economies. Successful entrepreneurs provide valuable products and services to society and create new jobs. Conversely, if entrepreneurs fail, their employees lose their jobs, customers lose access to products and services, and there are fewer changes and innovations to spark economic growth.

A company with solid liquidity is not only able to meet short-term financial obligations, but also has enough cash to take advantage of attractive business offers as they arise. It is important for business owners to understand their financial position in order to maintain adequate financial control of the company and make sound business decisions.

This paper provides an introduction to an alternative method of analyzing the cash flow of a small business. The method we introduce is called the Patton Cash Flow Statement (PCFS). We believe this new method is more appropriate for small business owners to use because it is easier to understand and provides a more realistic view of a company's cash flow and liquidity than does GAAP's indirect method cash flow statement.

LITERATURE REVIEW

Understanding cash flow is commonly viewed as one of the most important skills entrepreneurs can have in order to make sound financial business decisions that ensure firm survival and growth. We see entrepreneurial finance classes being offered in many premier universities such as MIT, Babson, and Harvard. In fact, the first line of Harvard's course description reads, "Entrepreneurial Finance is designed to help managers make better investment and financing decisions in entrepreneurial settings," (Sahlman, Lassiter, and Nanda, 2010).

Beyond entrepreneurship educators, entrepreneurs themselves and their financial advisors also place great emphasis on the importance of understanding and managing cash flow. Anderson, Envick, and Roth (2001) surveyed 103 entrepreneurs and 95 financial advisors to determine what they thought were the most important financial topics for entrepreneurs to understand. Entrepreneurs were surveyed because of their experience in dealing with the financial function of operating a business. The financial advisors were surveyed because of their expertise and also because they provide services to entrepreneurs. Both groups used a seven-point Likert scale to rate the importance of 30 different finance topics for entrepreneurs. The entrepreneurs identified "cash management and projecting cash flows" as their number one ranked topic. It ranked at number two for financial advisors. The financial advisors identified "forecasting and financial statements" as their number one ranked topic and this ranked at number two for entrepreneurs. And both groups ranked "financial ratio analysis" at number three. It is clear from these results that both entrepreneurs and their financial advisors believe that effectively managing cash flow is essential for success, as well as understanding financial statements and ratios.

Generally Accepted Accounting Principles (GAAP) are used by firms to prepare, present, and report financial statements. The three statements used to help entrepreneurs understand their financial position include: 1) the balance sheet, which is a snapshot of a firm's financial resources and obligations at a single point in time; 2) the profit and loss statement, which summarizes a firm's financial transactions over an interval of time; and 3) the cash flow statement, which reflects a firm's liquidity and includes only inflows and outflows of cash and cash equivalents. The indirect method of the cash flow statement is almost universally used because FAS 95 requires a supplementary report similar to the indirect method if a company chooses to use the direct method. The indirect method uses net-income as a starting point, makes adjustments for all transactions that involve non-cash operating activities, then adjusts for all

cash-based operating transactions. In general, an increase in a current asset account is subtracted from net income, and an increase in a current liability account is added back to net income. This method converts accrual-basis net income (or loss) into cash flow by using a series of additions and deductions.

One of the authors of this paper is a financial advisor to small business owners, who found that GAAP's indirect method cash flow statement may be misleading for small business owners when making important financial decisions. As a result, a new cash flow statement method was developed and used for multiple clients with remarkable success. This new method is called the Patton Cash Flow Statement.

THE PATTON CASH FLOW STATEMENT

Due to the proprietary features of the Patton Cash Flow Statement (PCFS), only a limited amount of information is provided in this paper. The overall concept is disclosed without a full explanation of how it is generated. In summary, the PCFS was developed by, and has been used extensively by one of the co-authors of this paper to show changes in cash in a more comprehensible, readable and common sense format. It is designed to use common business line items with descriptive subtotals that are intended to be easily understood by financial and non-financial readers of the PCFS.

Some differentiations of the PCFS versus the GAAP cash flow statement include the PCFS' segregation and highlight of amounts that drive several important business factors, such as: (1) shareholder value; (2) liquidity (or balance sheet strength); and (3) loan amounts supported by cash flow. These amounts are shown using common sense, every day business financial components.

Separating the creation or consumption of working capital and the changes in working capital components is an important part of the effectiveness of the PCFS. Increases and decreases in working capital items are a function of two factors; (1) volume, and (2) management. Volume is evident by trends reflected in standard income statements. Management of working capital items is reflected in turns/number of days. The PCFS shows the company's ability to manage working capital items.

In addition to management of working capital components, the primary drivers of liquidity and shareholder values are also shown by the PCFS. We believe the PCFS provides key financial information that is not available elsewhere in businesses financial reports. This key data is provided in a straightforward, common sense format.

The PCFS has been used by multiple companies in a wide range of industries. It is believed to be effective for businesses of any size. However, to date, the PCFS has been applied to entities that range from early stage to about \$60 million in sales.

Our study includes a two-phase methodology to test the PCFS: (1) real world application of the PCFS used by businesses to better understand and make decisions for their futures; and (2) a validation of the PCFS in a controlled classroom setting.

PHASE I: REAL WORLD APPLICATION OF THE PCFS

As discussed, the PCFS method has been utilized by one of the authors to assist multiple companies make important financial and business decisions. Three examples are provided below to illustrate the effectiveness of the PCFS.

Company A: In this example, proceeds from real estate sales mask problems of operating losses.

Company A had experienced years of business losses. However, the company's liquidity remained strong throughout this period and the strong balance sheet provided management with a false sense of security. Incorporating the PCFS allowed identification of the source of liquidity, which was the sale of non-operational real estate accumulated by the business over several decades. Using traditional cash flow statements prevented management from being aware of the major liquidity impact of this non-operational cash source. With the PCFS, management clearly saw the disparity between operating business results and the strength of their balance sheet. This essential information provided clarity and reality to the business's cash flow.

Company B: In this example, inventory buildup significantly drains liquidity.

Company B had a strong, liquid balance sheet and was generating working capital on a regular basis. However, liquidity began to decline substantially. The PCFS showed that sales and operating earnings continued to be strong during the period of decreasing liquidity and that the cause of this decline was a large buildup of inventories. By using the PCFS (along with the Mr. Patton's Common Sense Financial Method or CSFM), it was easy to determine that the business continued to perform well, but inventory buildup was depleting liquidity alarmingly. Management's understanding of this led to a decision to hire a full-time manager who was in charge of all inventory purchases and coordination with vendors. This new focus resulted in the necessary decrease in inventories and restoration of liquidity to its prior strong levels.

Company C: In this example, plant expansion that was not funded with long-term capital requires alternative financing.

Company C started a plant expansion without having secured long-term financing to pay for the new building and equipment. There was plenty of cash flow to support a loan on the property. However, a down-turn in the economy, the special-use purpose of the facility and a

lack of comparable buildings combined to result in a low appraisal and consequently lenders' reduced loan capacity. The unique information provided by the PCFS (and related CSFM liquidity calculation) resulted in structuring a loan that was a combination of a temporary term loan and use of a portion of the Company's line of credit. An abundance of unfunded amounts on the Company's line of credit made tapping this source of liquidity prudent without concerns about jeopardizing the viability of the business. As payments reduced the temporary term loan balance, the real estate market improved, and the geographic area used by the real estate appraisers was expanded, the Company was able to subsequently procure a long-term loan that funded the majority of the costs of the new facility.

General Observations: from working with numerous other companies.

In today's environment, lenders are constrained by regulators that are inhibiting their ability to loan funds to businesses even though the enterprises have adequate cash flow and/or are well capitalized. The PCFS clearly indicates the amount of cash that operations are generating and retaining. This is accomplished via the segregation of the creation/consumption of working capital and the changes and management of working capital components as discussed above. Also, liquidity as determined by the CSFM (of which the PCFS is a key component) objectively and succinctly calculates the organization's financial strength and identifies the drivers of change in this critical measurement. When lenders do not fully understand, and management cannot succinctly articulate a business' cash flow or liquidity, they will understandably err on the side of conservatism when deciding how much to loan to a company. With the information provided by the PCFS (and liquidity in the CSFM), lenders and borrowers can better structure funding that maximizes the needs of both parties.

PHASE II: VALIDATION OF THE PCFS

In the interest of looking more closely at the possibility that GAAP's indirect method may be misleading, and to further investigate the utility and validity of the PCFS, we embarked on an exploratory case study with graduate students at our university. The course used for this study was a graduate course in financial accounting research and communication. An intermediate accounting textbook was used. One of the topics covered was the cash flow statement with a significant amount of class time devoted to illustration, discussion and preparation of the GAAP statement. Students prepared several cash flow statements and demonstrated their understanding of related complex issues and calculations. All seven students had earned an undergraduate degree in accounting. Four of the seven were currently employed in public accounting and one had completed an accounting internship in public accounting and one in industry but was currently a full-time student. Another student was in the joint JD/MBA

program and consequently a full-time student. The seventh student had recently retired from the military and had not yet begun his accounting career.

Two cases were handed out after an in-class demonstration illustrating the preparation of the PCFS. Both cases contained the same financial information: (1) a two-year comparative balance sheet, (2) an income statement for the year and (3) additional details of transactions and events that occurred during the year. Both cases also provided information about the small corporation that was the subject of the case. The company had originated as a sole proprietorship by Thomas, an individual with absolutely no accounting knowledge and a total lack of understanding about the cash flow statement. Consequently, he relied completely on his controller, who was currently unavailable and unreachable, when making financial decisions.

At this point in the case, each group was given a different decision that Thomas had to make very quickly. Group #1's problem dealt with an opportunity to buy merchandise inventory at a substantial discount and Group #2's problem dealt with an opportunity to purchase fixed assets for expansion purposes. In both cases, the situation was described as a "golden opportunity" and decision-making time allowed was only three days. Students were required to prepare both a GAAP cash flow statement and a PCFS. They were told to make a recommendation to Thomas, and to be sure to support their recommendation based on all four financial statements. Further, they were instructed to clearly state the information on the two statements that they had prepared (GAAP cash flow and PCFS) that led to their decision.

Both groups of students recommended using the Patton's Cash Flow Statement for making their respective decision. Members of Group #1 strongly felt that the GAAP statement was "misleading." They indicated that the Patton statement was more informative and more closely related to free cash flow. Members of Group #2 indicated that they began their discussion by relying on and referring to the GAAP statement, but decided that the information presented therein was "not representative of how the company is doing." They were concerned about getting reliable information about the overall financial picture of the company and the results of operations, and they felt the core cash flow, which is part of the Patton approach, was more indicative of true cash flow and preferred it over the cash flow from operations presented in the GAAP statement. Further, they found that the analysis of changes in working capital, which is also part of the PCFS, was also beneficial. It allowed them to focus on operating liquidity. When queried, members of both groups felt that preparation of the PCFS on a monthly or quarterly basis would be beneficial, especially for small business.

CONCLUSIONS

Through this two-phase exploratory study, we have reason to believe that the GAAP indirect method cash flow statement can be misleading to entrepreneurs and small business owners. Further, our results indicate that the Patton Cash Flow Statement may provide more

information, more clarity of sources and uses of cash, and be easier to understand for entrepreneurs and small business owners who are making important business decisions.

We contend that the PCFS is a better tool than GAAP's indirect cash flow statement for making business decisions. While we understand that GAAP methods are required for reporting purposes, and understand that the traditional financial statements must be taught and understood by business owners, it is essential to provide them with alternative tools that might be better for decision-making purposes that could be the difference between success and business failure. For more information about the PCFS, interested readers should contact one of the authors of this paper.

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THE EFFECTS OF THE BP OIL SPILL AND HURRICANE KATRINA ON BUSINESSES IN SOUTH LOUISIANA

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ABSTRACT

In August 2005, south Louisiana received a devastating blow from Hurricane Katrina and is currently receiving another trauma with the BP Oil Spill that could have direct effects on the environment, economy, and the destruction of a 'way of life' cherished by South Louisianans. Even though the media has been instrumental in providing pictorial data on physical effects of these events, our focus is on people and businesses. It is essential to obtain data that includes the long-term effects of a natural event and the short-term consequences of a man-made disaster on every individual and the business community. To develop a clear picture, face-to-face interviews were conducted with those who were directly affected by these two events and data was collected. The analysis of collected data provided us with a full spectrum of effectiveness of our past decisions and appropriateness of our present actions on two different major disaster events on the same communities.

INTRODUCTION

The businesspeople of South Louisiana have gone through two major disasters in a five year period where this research study shows that the businesspeople have not been able to recover financially. Also, the President of the United States has placed a moratorium on deep water drilling for six months that has certainly hurt not only businesspeople directly involved but also other businesses as well. CNN Money reveals that small businesses are skeptical – at best – of BP's promise that it will pay for all lost income and wages as a result of the oil spill. This article states that it is certainly easier to pay individual workers with a single W2 form than businesses such as real estate agencies, restaurants and retail shops. CNN Money indicated that BP has received 37,000 claims for compensation, but it has only made payment or partial payments on 18,000, totaling just shy of \$50 million (Clifford, 2010). The next round of payments is to bring the total to \$84 million (Clifford, 2010).

As of the writing of this study over two months have passed since BP's Deepwater Horizon exploded and sank in the Gulf of Mexico causing up to 125 million gallons of oil

spilled, 1.4 million gallons of dispersant used, 23.5 million gallons of oily water recovered, 80,806 miles of federal waters closed to fishing, 6,100 vessels responding to the spill, and 1,360 animals found dead in the spill area (Thomas, 2010) plus eleven people died on the Deepwater Horizon when it exploded.

Along with the environmental disaster is the economic calamity unfolding in South Louisiana where as many as 25,000 jobs could be affected by the six-month ban imposed by President Obama while the investigation into the BP accident is underway. It has been projected that the ban could cost the local economies between \$3 billion and \$5 billion a year (Hargreaves, 2010). Another economic calamity occurred in August 2005 bringing Hurricane Katrina to South Louisiana. This storm caused significant damage and still today South Louisiana has not fully recovered. In the year following Hurricane Katrina, New Orleans' population plunged 25%. And while the city has added some residents, the population still sits well below pre-Katrina levels. In total, the Crescent City has had a net loss of more than 126,000 people in the past decade. That's higher than any other city in the country (Infoplease).

METHODOLOGY

This study was conducted in Venice, Galliano, and Grand Isle, Louisiana where Southern University at New Orleans Business Entrepreneurship majors was asked to interview 200 South Louisiana Business People. The students were supervised by the writers of this article. The vast majority of the respondents were located on the Venice Fishing Pier in Venice, in Grand Isle, and a big box store in Galliano.

Demographics and Location Diversity

Both Venice and Grand Isle sit on the Gulf of Mexico and Galliano is approximately 36 miles from the Gulf, however, Galliano is on a bayou that leads to the Gulf of Mexico. The most common industry in Venice is fishing representing 13% of the industries located in the area (city-data). The population of Venice is 2,220 with a median household income of \$40,523 (Muninetguide). Grand Isle has a population of 1,541 with a median income of \$40,205 (Muninetguide). The leading industry in Grand Isle is fishing representing 15% (Sumplyhired). Galliano has a population of 7,356 (US City Home) and a median household income of \$31,419 (City Data Galliano). The most common occupations for males is rail and water transportation (16%) and fishing (6%) (City Data Galliano).

Research Issues

The objective of this research is to investigate the effects of both Hurricane Katrina (a natural disaster) and the BP Oil Spill (a manmade disaster) on the South Louisiana economy and

the social attributes and life of people. The above objective was expressed in terms of a set of questions which are appropriately reflective of the situation.

- Q1. What is the approximate sales revenue per year of the South Louisiana business people before the BP Oil Spill?*
- Q2. What percentage of the South Louisiana Businesspeople revenue has decreased today (after the BP Oil Spill – June 18, 2010)?*
- Q3. What percentage of the South Louisiana Businesspeople revenue was recovered after Hurricane Katrina and before the BP Oil Spill?*
- Q4. Are South Louisiana Businesspeople willing to do the same business in Louisiana in the next five years?*

Data Collection

As indicated previously the method of data gathering was based on fact-to-face interviews from different locations. Over 200 questionnaires were collected randomly from the towns of Galliano, Louisiana (40 questionnaires); Grand Isle, Louisiana (29 questionnaires); and Venice, Louisiana (131 questionnaires).

Again, Galliano is located approximately 36 miles up the bayou from the Gulf of Mexico where it is one of the largest cities in this area of south Louisiana consisting of big box stores, seafood processing plants, moorings for the fishing fleet, etc. On the day the surveyors visited this area the seafood processing plants were closed and the fishing fleet was idle. The surveyors interviewed people at a big box store.

When the students visited Grand Isle, which is located on the Gulf of Mexico, to conduct the interviews the town was a ghost town. No restaurants were open, the camps had ‘for rent’ signs on them and the few people seen were BP workers who would not talk to the students. According to the census data, Grand Isle has a population of 1,541 people which expands in the summer to over 20,000 (Simplyhired – Grand Isle). Certainly this was not the case on June 18, 2010 when the survey was conducted. The students went on the main street of Grand Isle to the major grocery store to solicit interviews. While doing the interviews, which were conducted on a Friday, the people going to the grocery store only purchased one or two items not the usual filled grocery basket that would be normal.

Venice is located on the Gulf of Mexico. Venice fishermen were gathered on the fishing pier where the students interviewed the fishermen. The fishermen were gathered to talk to the BP people and were trying to obtain work from the oil company.

OUTCOMES

Question 1:

Of the population studied, over eighty-seven percent were business people having sales revenue of under \$100,000 per year. Table 1 reveals the approximate sales revenue per year for the three cities studied. Galliano and Grand Isle both showed average sales revenue of \$100,000 to \$249,999 whereas Venice had average sales revenue of under \$100,000. The following table indicates the results of the first question concerning annual income of the residents before the Bp Oil Spill.

Revenue	Galliano	Grand Isle	Venice	Total
Less than \$100,000	11	7	76	94
	27.5%	24.1%	58.0%	
\$100,000 to \$249,000	6	4	19	29
	15.0%	13.8%	14.5%	
\$250,000 to \$499,000	9	7	33	49
	22.5%	24.1%	25.2%	
More than \$500,000	7	5	3	15
	17.5%	17.2%	2.3%	
Total Completed Responses	33	23	131	187
Total Responses	82.5%	79.3	100%	201

Question 2:

The respondents were asked to assume their business revenue was 100% before the BP Oil Spill. What percentage of the respondents' business income has decreased today? Overall, the businesspeople indicated that their income has dropped 21% to 40%. The businesspeople of Galliano and Grand Isle indicated that their business revenue has decreased 41% to 60% whereas the business people of Venice stated their business revenue had decreased by 21% to 40%. Table 2 shows the results of the second question concerning income decreasing.

Percentage	Galliano	Grand Isle	Venice	Total
0%	3	1	25	29
	7.5%	3.4%	19.1%	
1% to 20%	0	0	16	16
	0%	0%	12.2%	
21% to 40%	5	1	27	33
	12.5%	3.4%	20.6%	
41% to 60%	5	8	33	46
	12.5%	27.6%	25.2%	
61% to 80%	13	7	20	40
	32.5%	24.1%	15.3%	
81% to 100%	8	1	10	19
	20.0%	3.4%	7.6%	
Total Completed Responses	34	18	131	183
	85%	62.1%	100.0%	
Total Responses	40	29	131	200

Questions 3

The average overall revenue recovered after Hurricane Katrina and before the BP Oil Spill was 21% to 40%. The businesspeople in Galliano and Grand Isle average recovered revenue was 61% to 80% whereas, the businesspeople in Venice was 21% to 40%. Table 2 reveals the average overall revenue recovered after Hurricane Katrina and before the BP Oil Spill. Table-3 shows the result of the third question concerning income recovery after Hurricane Katrina and before the BP Oil Spill disaster.

Question 4

Table 4 will show how many businesspeople in South Louisiana will be doing the same business in Louisiana in the next five years. Overall the results reveal that the business people will stay in their current business, however 27% of the respondents indicated 'unlikely' and 'most unlikely,' therefore indicating these businesspeople will not be conducting the same business over the next five years). The table reveals that 33% of the Galliano population stated 'unlikely' or 'most unlikely.' The Grand Isle population indicated that 41% will not be doing the same business. Twenty-three percent of the Venice respondents stated they will not be doing the same business in five years.

Percentage	Galliano	Grand Isle	Venice	Total
0%	2	2	25	29
	5.0	6.9%	19.1%	
1% to 20%	1	0	16	17
	2.5%	0%	12.2%	
21% to 40%	1	1	31	33
	2.5	3.4	23.7%	
41% to 60%	4	3	41	48
	10.0%	10.3%	31.3%	
61% to 80%	9	5	9	23
	22.5%	17.2%	6.9%	
81% to 100%	8	7	5	20
	20.0%	24.1%	3.8%	
Over 100%	8	5	4	17
	20.0%	17.2%	3.1%	
Total Completed Responses	33	23	131	187
	82.5%	79.3%	100.0%	
Total Responses	40	29	131	200

Revenue	Galliano	Grand Isle	Venice	Total
Most Likely	9	4	39	52
	22.5%	13.8	29.8%	
Likely	7	5	37	49
	17.5%	17.2%	28.2%	
Neutral	5	2	25	32
	12.5%	6.9%	19.1%	
Unlikely	10	8	15	33
	25.0%	27.6%	11.5%	
Most Unlikely	3	4	15	22
	7.5%	13.8%	11.5	
Total Completed Responses	34	23	131	188
	85%	79.3	100.0%	
Total Responses	40	29	131	200

DISCUSSIONS AND CONCLUSIONS

In looking at the results of the data, the three Louisiana towns could not be more different. Galliano is 36 miles up the bayou from the Gulf of Mexico having big box companies servicing a large diverse town. Grand Isle is an island community located on the Gulf of Mexico that is composed of fisherman, real estate investors, and companies servicing the tourists during the summer. Venice is also located on the Gulf of Mexico but the people interviewed were fishermen waiting to hear about possible jobs offered by BP.

While interviewing the people of Galliano many respondents were extremely concerned that the following week many people working for the big box companies would be laid-off of their current positions. *USA TODAY* states that what is really worrying the shrimpers, oystermen, charter boat captains, hunting guides and the oil rig workers across the Gulf coast isn't today's losses, bad as they are; it is tomorrow's losses (Wiseman & Watson, 2010).

USA TODAY interviewed a Venice charter boat captain where he stated he lost everything he owned in Hurricane Katrina. "But the thing about a hurricane is, 24 hours after it goes through, if you've got the guts and fortitude; you can get nails and start rebuilding. But no one knows the long-term effects of the (oil) contamination" (Wiseman & Watson, 2010).

Oysterman Mitch Jurisich indicated that if his business gets shut down he and his fellow oysterman have to worry about foreign oysterman supplying oysters to the United States (Wiseman & Watson, 2010).

BBA Compass economists Nathaniel Karp stated that the direct economic toll of the BP oil spill is close to \$11.5 billion (Wiseman & Watson, 2010).

The businesspeople interviewed indicated that 'likely' they will be doing the same business in Louisiana in the next five years. However, overall 27% of the respondents indicated they will not be doing the same business in Louisiana in the next five years. The following shows who will not be doing the same business in Louisiana in the next five years by towns studied:

Galliano	33% will not be doing the same business in Louisiana in the next five years
Grand Isle	41% will not be doing the same business in Louisiana in the next five years
Venice	23% will not be doing the same business in Louisiana in the next five years

The businesspeople of south Louisiana have gone through two major disasters in a five year period where this research study shows that they have not been able to recover financially. Also, the President of the United States has placed a moratorium on deep water drilling for six months that has certainly hurt not only businesspeople directly involved but also other businesses as well. CNN Money reveals that small businesses are skeptical – at best – of BP's promise that it will pay for all lost income and wages as a result of the oil spill (Clifford, 2010). This article

states that it is certainly easier to pay individual workers with a single W2 form than businesses such as real estate agencies, restaurants and retail shops (Clifford, 2010). CNN Money indicated that BP has received 37,000 claims for compensation, but it has only made payment or partial payments on 18,000, totaling just shy of \$50 million (Clifford, 2010). The next round of payments is to bring the total to \$84 million (Clifford, 2010).

When the students visited Grand Isle to conduct the interviews the town was a ‘ghost town.’ No restaurants were open, the camps had ‘for rent’ signs on them and the few people seen were BP workers who would not talk to the interviewers. According to the census data, Grand Isle has a population of 1,541 people which expands in the summer to over 20,000 (Simplyhired – Grand Isle). Certainly this was not the case on June 18, 2010 when the survey was conducted. The students went on the main street of Grand Isle to the major grocery store to solicit interviews. While doing the interviews, which were conducted on a Friday, the people going to the grocery store only purchased one or two items not the usual filled grocery basket that would be normal.

In Galliano, the interviewers stopped at a big box store to conduct interviews. While seeking business people some employees of the big box store indicated they will be laid off next week. Certainly, it was a striking scene to see shrimp boats docked and shrimp and oyster processors shut-down due to the oil spill.

The Galliano workers indicated they did not receive nor did they want government funds after Hurricane Katrina. All they desire is to get back to work. Unfortunately due to the BP Oil Spill these people are going to have to make some long-term life-changing decisions.

Four costs can be attributed to the BP oil spill and Hurricane Katrina catastrophes:

- The political cost
- The environmental cost
- The economic cost
- The emotional cost

This study’s focus was to measure the economic costs associated with these catastrophes. As seen in the ‘ghost town’ of Grand Isle the projected loss in tourism dollars could range from \$7.6-\$22.7 billion over three years if the tourism industry does not recover. (Jervis, 2010) While in Venice, Galliano, and Grand Isle seeing the closed fishing areas, closed seafood processing plants, closed restaurants, bars, and ‘for rent’/‘for sale’ signs indicates the economy as a whole is suffering. *USA TODAY* states that the economy as a whole will lose \$1.2 billion in economic output and 17,000 jobs by year’s end. (Jervis, 2010) The final leg of the economic cost triad of tourism and seafood is the deep-water drilling industry closure. As was seen firsthand by the effects of lay-offs in Galliano, projections have indicated that the loss of the deep-water drilling

industry will cost the economy \$2.1 billion and 8,000 jobs as a result of the moratorium (Jervis, 2010).

The most striking results of this study was that the interviewees in Galliano (33%), Grand Isle (41%), and Venice 23% stated in the next five years they will not be doing the same business in Louisiana. Certainly, south Louisiana will lose a cherished 'way of life.' Future research should be conducted on the same parameters of this research study in the short-term every six to ten months to show the effects of the oil spill/hurricane long-term.

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SMALL BUSINESS AND WEB 2.0: HOPE OR HYPE?

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ABSTRACT

Considering the number of small businesses in the US, the magnitude of their impact on the economy, and the prevalence of “Web 2.0” in discussions regarding businesses, the dearth of scholarly work on small businesses and evolving web technologies seems salient. Web 2.0 is generally defined and distinguished by the presence of increased interactivity in Web applications and an underlying open and collaborative platform. Web 2.0 advocates suggest that the platform eliminates size advantages for businesses and allows small businesses and even single individuals the ability to compete with large corporations. Therefore, in this paper the opportunities and risks in Web 2.0 for small businesses are considered within the context of small business resource poverty.

The structure and elements of Web 2.0 are analyzed and reveal potential opportunities within digital industries; however capitalizing on these opportunities requires resources that small businesses are not likely to possess. Overall, it appears that Web 2.0 is primarily a basis of competition, making it a risk for those small businesses that do not utilize it. In addition, no systematic method for evaluating the return on investment (ROI) of utilizing Web 2.0 applications has been developed. This leaves small businesses on their own to weigh the risks of not participating against the lack of understanding regarding the return on investment (ROI) of Web 2.0.

Given the ubiquity of Web access and the permeation of the Web across numerous product and service categories, understanding and participating in the Web will only grow in importance for small businesses. As such, small businesses would be well served by research on Web 2.0 and its impact on small business success. Based on the analysis fruitful and practically useful research avenues are identified.

INTRODUCTION

“Especially in a “flat world” where “size matters not,” small- and medium-size enterprises and even one-man local businesses or projects can use these [Web 2.0] business models to advantage” (Shuen, 2008)

“The tools of Web 2.0 allow anyone willing to put in the time and effort to harness the tools of the Internet and build the next great startup. Inexpensive and collaborative technology is allowing entrepreneurs to create unbelievable products

and services even with meager resources and this environment of innovation should inspire entrepreneurs of any age to tap into the opportunities.” (Small Business News, 2010)

Perhaps due to its ambiguous meaning and debated usefulness Web 2.0, and the evolution of web technology in general, and its impact on small business has not been adequately addressed by the academic business community. A recent article search in an EBSCO hosted database of business publications revealed that over the last decade scholarly articles focusing on small business and the World Wide Web oriented technologies constituted just 2.3% of all articles published on small businesses. Considering the number of small businesses, the magnitude of their impact on the economy, and the prominence of the role of technology and the World Wide Web in discussions regarding business, the dearth of scholarly work on this subject seems salient. While a modicum of research has been conducted on small businesses and specific Web technologies, such as e-commerce (Grandon & Pearson, 2004; Hashim, 2009; Kendall, Tung, Chua, Ng, & Tan, 2001; Mehta & Shah, 2001; Poon & Swatman, 1999) and internet marketing (Poon & Jevons, 1997; Schmengler & Kraus, 2010), few scholars have considered Web 2.0 as a general technology platform for small businesses. The widespread usage of the term “Web 2.0” in the business world suggests that, at a minimum, an analysis of its definition and alleged role in small business development and success is warranted. The growing buzz around the ability of so-called Web 2.0 technologies to democratize various aspects of society and culture, including politics, information, publishing, and business (Anderson, 2006; Governor, Hinchcliffe, & Nickull, 2009; Hippel, 2005; Kelly, 2005; Shuen, 2008), suggests more in depth conceptual and empirical analyses of this issue are needed to further understanding and offer guidance for small business owners and managers.

Web 2.0, a name reflecting an improved or upgraded version of the Web, is generally defined and distinguished by the presence of increased interactivity in Web applications including social media (online collaborative projects such as wikis, blogs, and social networking sites), cloud-based computing (information and software stored and run from a web server, not the user’s computer), and the ability to access the Web via multiple device platforms (i.e. laptops, mobile devices, e-readers)(Governor et al., 2009; Kroski, 2006; O’Reilly, 2005; Peter, 2004; Shuen, 2008). The interactivity defining Web 2.0 is in large part a result of its underlying architecture as a technology platform, which includes an emphasis on participation-collaboration, a service orientation, and open source structured information, within the context of ubiquitous internet access. The major benefit Web 2.0 is purported to offer small businesses is the elimination of size advantages of larger corporations due to economies of scale (Anderson, 2006; Governor et al., 2009; Shuen, 2008). While evidence suggests that Web 1.0 applications such as e-commerce and informational web sites have not put small businesses on equal competitive footing with large corporations or reduced scale advantages (Hashim, 2009; Jones, 2005; Jones, Hecker, & Holland, 2003; Poon & Swatman, 1999), advocates of Web 2.0 technologies

recognize this (O'Reilly, 2005; Shuen, 2008) and assert that Web 2.0 applications and technologies offer opportunities to small businesses that were imaginable but not feasible on a Web 1.0 platform (Anderson, 2006; O'Reilly, 2005).

The concept of Web 2.0 is not without controversy, as some argue it presents revolutionary opportunities for small businesses (Anderson, 2006; Governor et al., 2009; Li & Bernoff, 2008; O'Reilly, 2005; Rudman, 2010; Shuen, 2008; Wallace, 2007) while others suggest it is mere hype, representing nothing of substance (Carr, 2003; Dijck & Nieborg, 2009; Hindman, 2008; Maguire, 2007; Scholz, 2008). However, the term has grown in popularity among business practitioners and has spawned numerous workshops and consultants offering small businesses training on how to take advantage of Web 2.0 applications. Therefore, in this paper I consider the concept and meaning of "Web 2.0" and explore the potential opportunities and risks for small businesses, with an eye toward identifying fruitful future research opportunities.

Context of small businesses

Although there is no uniform and consistent definition of what constitutes a small business, definitions tend to be based on the number of employees, annual revenues, or amount of assets. The Small Business Administration (SBA) of the U.S. government considers companies with up to 500 employees, small businesses, while the U.S. Internal Revenue Service considers businesses earning less than \$10 million in gross revenue to be small. Web 2.0 advocates have suggested opportunities offered by these technologies are available and exploitable by even a one-person operation. As such, the label 'small business' in this paper will primarily refer to a business that contributes over 50% of the owner's income, and has less than 20 employees. Although many researchers follow the SBA's definition of small businesses as organizations with less than 500 employees, external elements such as technology arguably have a different impact on a company with 5 employees versus a firm with 50 or 300 employees. In addition, firms with less than 20 employees represent a relevant and sizeable number of businesses in the U.S. (roughly 90% of all businesses (U.S. Census Bureau, 2006)). Finally, very little research focusing on firms with less than 20 employees has been conducted, particularly on analyzing impact of Web-based technology.

Since the early 1980s scholars have recognized that small businesses have certain unique characteristics that questioned the extension of existing management and business ideas to the small business domain (d'Amboise & Muldowney, 1988; Welsh & White, 1981). In particular, Welsh and White (1981) argued that small businesses experience a condition they labeled "resource poverty" resulting primarily from their small size. This condition includes the tendency for small businesses to exist in highly fragmented industries and have limited access to capital funds for growth or weathering tough economic times. Highly fragmented industries involve a multitude of competitors resulting in a tendency to move toward an industry-wide

emphasis on low price competition, eroding profit margins (Porter, 1985). Shrinking profit margins and limited access to capital in the context of low price competition puts small businesses in a situation similar to an individual living “paycheck to paycheck,” making it challenging to survive even short economic downturns, and restricting funds available for investors, employee training, and other operational and growth-oriented investments.

Recent data support Welsh and White’s (1981) claims regarding small business resource poverty. For example, analyzing data on U.S. small businesses Shane (2008) found that most small businesses are started in industries with myriad competitors and subsequently less attractive profit margins. In addition, the IRS suggests that while the smallest businesses represent about 58% of all the small businesses in the U.S., they generate less than 15% of the profits (Quantra Strategies, LLC, 2009). Restricted access to capital also magnifies the impact that external environmental forces have on small businesses. For example, reacting to a change in regulations, tax laws, or interest rates, affects a greater percentage of total expenses for a small business than a large corporation, and small businesses tend to be less diversified and less able to achieve economies of scale or access capital markets as a means to react to changes in the external environment (Dixon, Gates, Kapur, Seabury, & Talley, 2006; Welsh & White, 1981). Data from the National Federation of Independent Business (NFIB) suggest that the most pressing problems for small businesses are the costs involved in operating their firms (i.e. health insurance, energy, and electricity), business income tax, and property taxes (Phillips & Wade, 2008). This suggests that most small companies are concerned with short term financial stability and may have less time and capital for investing in growth. Ultimately, their resource poverty – the reduced possession of and access to financial, human, and knowledge resources in comparison to larger businesses - means that small businesses have less margin for error, more difficulty in surviving environmental shocks and/or internal mistakes, and arguably less ability to take advantage of opportunities (Welsh & White, 1981).

Welsh and White’s (1981) notion of resource poverty is still very relevant for small businesses in today’s economy. In addition, the claims of Web 2.0 advocates stress improved equality for small businesses and an elimination of the advantages of size in the business world (Anderson, 2006; Governor et al., 2009; O’Reilly, 2005; Shuen, 2008). Given that a small business’ limited resources are the primary reasons for their disadvantages when compared with larger firms, opportunities in Web 2.0 should increase the value of, or access to resources for small businesses, and/or eliminate risk brought on from a lack of resources due to size. As such, Web 2.0 technologies will be considered in light of their ability to mitigate resource poverty for small businesses.

What is web 2.0?

The label “Web 2.0” mimics the naming process of software versions, in which the version number of the software increases with its development and improvement. Made popular

by Tim O'Reilly in his 2005 white paper (O'Reilly, 2005), the term "Web 2.0," according to O'Reilly, describes a set of characteristics present in Web applications that collectively harness user participation and collective intelligence (O'Reilly, 2005). Leverage occurs as a result of the vast network effects found in these applications. O'Reilly argues that these network effects are not only utilized to create dynamic applications and services, but generate constant improvements in the applications as their user bases grow. Thus, this second era of the Web is characterized by the ubiquity of interactive Web applications that further reduce barriers to information and geographic connectivity. These applications include social media (online collaborative projects such as wikis, blogs, and social networking sites), cloud-based computing (information and software stored and run from a web server, not the user's computer), and the ability to access the Web via multiple device platforms (i.e. laptops, mobile devices, e-readers).

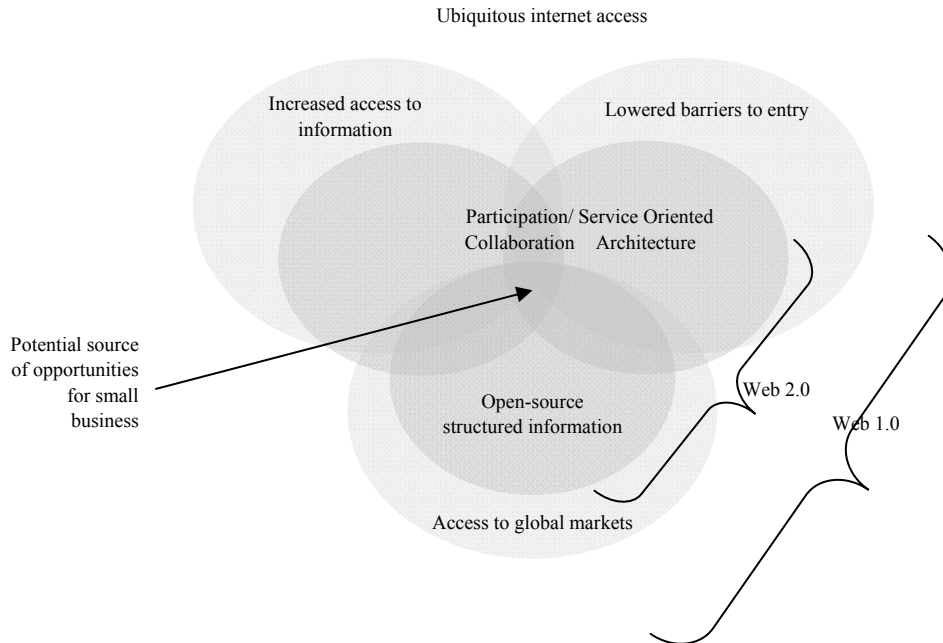
Over the course of the last decade access to the internet has increased dramatically and has been extended to an array of personal devices. People are no longer tied to a desk, or even a laptop, to access the internet. Cell phones, tablet devices, even refrigerators (Smith, 2000) have access to the Web today. Fundamentally, Web 2.0 feeds off of the legions of users interacting with each other and the subsequent network effects generated by applications gaining critical masses of users. Therefore, this ubiquitous access is an important context for Web 2.0 technologies and their ability to leverage Web 1.0 benefits. Web 1.0 offered reduced barriers to entry for business, inexpensive access to global markets and increased access to information. While these characteristics were powerful they did not necessarily lead to a more level playing field for small businesses (Hashim, 2009; Jones, 2005; Jones et al., 2003; Poon & Swatman, 1999).

Web 2.0 is argued to be distinguished from earlier Web technologies predominantly by its underlying architecture, made possible and effective by the ubiquity of broadband internet access and characterized by three major elements; participation-collaboration, service orientation, and open source structured information. While the technological architecture of Web 2.0 has been described in great detail and as encompassing eight or nine major characteristics (Governor et al., 2009; O'Reilly, 2005), these three conceptual dimensions and their interaction with features of Web 1.0, illustrated in Figure 1, more parsimoniously account for the majority of the alleged impact of Web 2.0 technologies on small business.

The participation-collaboration element of Web 2.0 is perhaps its central theme. In general, greater numbers of internet users combined with improving capabilities of hardware and software has led to what many argue is a fundamentally new way of communicating and relating (Anderson, 2006; Governor et al., 2009; Li & Bernoff, 2008; O'Reilly, 2005; Shuen, 2008). Web users are now also producers, creating and publishing their own content, organizing vast amount of data through "folksonomies" or classification systems derived from users categorizing data based on their collective understanding and use of it, collaborating on everything from documents to software development across geographic boundaries, and connecting with each

other and disseminating information widely and rapidly through online social networks (Governor et al., 2009; O'Reilly, 2005).

Figure 1
Characteristics of Web 2.0 that present potential opportunities for small businesses



The service-orientation of Web 2.0 refers to an overarching framework for integrating services that are created, owned and managed independently. The integration is like an overlay that creates new, eminently more useful services while leaving the original services intact and managed as separate entities. For example, Housingmaps.com integrates information about available housing from Craigslist.com (a popular classified ads website) and GoogleMaps (a free web mapping service application that offers street maps, route planners, and place locators for numerous countries around the world) to offer users a more expedient way to find houses for sale or rent in their specified locations. These integrations, called “mashups” (sites that aggregate or combine content from multiple sources to create something new), and software as a service (providing users with software functionality without the need to install anything on their computers, known as Software as a Service (SaaS)) represent some of the outcomes of the service-orientation aspect of Web 2.0.

If the participation-collaboration is Web 2.0's central theme, the open-source structured information element is arguably its core enabling platform. Open source generally refers to software that is developed around a production and distribution model that incorporates access to the source code of the software and gives users the ability to modify that code. These modifications can result in new features or functionality of the software. Argued benefits of open source models include higher quality software products with increased levels of reliability and flexibility at a lower cost (Open Source Initiative, 2010). The open-source model ensures that all users have access to information and services on the Web, while the structured information component basically makes that access useful. Structured information has to do with the way information is "marked up," and markup technologies such as XML (Extensible Markup Language) which differs from its Web 1.0 predecessor, HTML (hyper-text markup language), in its ability to transport and store data, allow for connectivity and data sharing across multiple sites. Metadata, as its name implies, is "data about data" (NISO, 2004) and refers to structured information that describes, explains, and locates other information, making it easier to retrieve, use, or manage. Detailed technical aspects of the structured information component are beyond the scope of this article, but they comprise the platform that makes useful interactivity among the Web's users possible and productive.

While each of these components is useful and important on its own, it is the combination of these elements that create the overall concept and alleged power of Web 2.0. A widely cited example of a Web 2.0 business is the photo sharing website, Flickr.com. Users upload their pictures to Flickr and can immediately share them with others by sending links to their Flickr pages. Basic functionality and uploading images is free, which drives traffic to the site with little or no marketing expenses. Users can "tag" or label photos to help other users when searching for images, increasing the value of the site to users. The more users Flickr attracts the more useful the site becomes to those users and the more users want to utilize Flickr. Flickr monetizes its web traffic in three ways: Offering contextual advertisements to outside companies, sponsorship and revenue-sharing with companies that offer complementary services (i.e. digital printing, camera sales), and selling premium accounts that allow users greater functionality or the elimination of advertisements on their page. This three-fold revenue model takes advantage of the participation-collaboration structure of Web 2.0, the ubiquity of internet access, and capitalizes on the network effects created by its users.

WEB 2.0 AND SMALL BUSINESS

The idea that the Internet would be the great equalizer in business, "leveling the playing field" for the "the little guy" has been part of the conventional wisdom surrounding Web technologies since e-commerce became part of the lexicon. Early alleged benefits of the Web for small businesses included increased access to information with little to no additional resources required, low cost access to global markets, and overall lower barriers to entry (Forster, 2000;

Lituchy & Rail, 2000; Mehta & Shah, 2001). However, advocates of Web 2.0 technologies and scholars alike recognize that these benefits did not translate into real advantages for small businesses (Hashim, 2009; Jones, 2005; Jones et al., 2003; O'Reilly, 2005; Poon & Swatman, 1999; Shuen, 2008). One rationale given for this is that while Web 1.0 technologies did make information more accessible and cheaper, lower barriers to entry (for establishing a Web-based business), and offer access to a global market, they did not reduce the necessity for economies of scale as a key to competition. For example, Behan (1998) noted that in 1998 the best e-commerce web sites needed to generate 200 visitors to their site to produce one purchasing customer. Even if the infrastructure for establishing an e-commerce site was equally accessible to both small and large companies, the resources to generate large numbers of users to the company website were not equally accessible. Traditional promotion and marketing channels were still the primary means for generating traffic to a website in Web 1.0, and large companies could leverage those resources and their already larger customer bases to create an advantage over small companies with respect to generating website traffic. Small businesses lacked the resources needed to produce large amounts of visitors to their websites in a timely enough fashion to generate positive cash flow early on.

Web 2.0 advocates not only recognize the challenges for small businesses in Web 1.0 and the factors leading up to the dotcom bubble burst, but suggest that Web 2.0 applications and technologies represent the actualization of opportunities inherent in the World Wide Web, which were only imaginable during the Web 1.0 era (Anderson, 2006; O'Reilly, 2005). In particular, Web 2.0 is argued to offer opportunities that are impervious to company size and scale, and are accessible to the single individual as well as the large corporation. These opportunities generally fall in two distinct categories: new opportunities in digital product and service industries and drastic cost reductions for small businesses across all industries.

Digital products and services

Small businesses in industries where products and services have become digitized (i.e. music, books, Web-based services) should be able to compete more effectively with large corporations based on new business models and cost structures made possible by Web 2.0. These business models offer quick monetization of website traffic, large scale reductions in major cost centers of production (digital) and distribution, and the ability to connect niche demand with niche supply profitably (Anderson, 2006; O'Reilly, 2005; Shuen, 2008).

Web 2.0's participation-collaboration pattern of usage and service oriented architecture magnify the lower barriers to entry and access to information and global markets offered by Web 1.0. The ultimate effect of this is argued to be an ability for companies to quickly acquire customers that immediately contribute to positive cash flows (Anderson, 2006; Shuen, 2008). Shuen (2008) suggests that Web 2.0 allows businesses to generate positive cash flows more quickly than brick and mortar businesses, and eliminates the investment payoff time present for

Web 1.0 business. One example of a business model alleged to accomplish this is commonly referred to as the “freemium” model (Anderson, 2009; Shuen, 2008; Wilson, 2006). The freemium business model offers a service (i.e. storing and sharing photographs) for free and then charges users for more sophisticated features (i.e. licensing photos to other users), or incorporates contextual advertising into the site. As technology has continued to develop, Web 2.0 advocates argue that the costs of developing and maintaining the free digital service have declined to the point that resource requirements to do this are minimal. The free service attracts users at a rapid rate through a viral, word of mouth process generated through the social network and user participation architecture of Web 2.0. Thus, large scale web traffic is generated quickly and inexpensively and the small percentage of users that click on an advertisement or convert to paid users generate revenues sufficient to support the development cost of the free service and create profit for the business (Anderson, 2006, 2009; Shuen, 2008; Wilson, 2006). This not only reduces customer acquisition costs, but eliminates a major cost element in ongoing marketing and customer relations management (Anderson, 2006; Shuen, 2008). Due to the low development and marketing costs involved, Web 2.0 advocates suggest this model can be carried out effectively by a one person operation or a large corporation.

While detailed industry data on small businesses is not readily available, national data from the US Small Business Association suggests that for the period 2003 -2006 small businesses in the Internet related industries (including e-Commerce retail sales, Internet publishing, Software publishing, Data processing and Web hosting, and Other information services) account for less than 1% of all small business (with less than 20 employees), and this percentage has remained relatively static over the three year period. While this figure is similar for businesses with more than 500 employees (less than 2% of all businesses), based on the argument that size advantages no longer matter in these industries, one might expect to see an upward trend developing in terms of numbers of small businesses in these industries. More recent data may offer a better look given the growth of Web 2.0 applications since 2005.

However, there are conceptual arguments that suggest this trend may not appear in more recent data. Recent research has shown that even while access to the Internet and information may be growing, possession of the knowledge and skills needed to use the Web varies widely and appears to be based on an individual’s status group (Dijk, 2005; DiMaggio, Hargittai, Celeste, & Shafer, 2004; Hargittai, 2003; Hargittai & Walejko, 2008) and that small businesses may not have the skills to capitalize on the opportunities present in Web 2.0 technologies (Jones, 2005). Web 2.0 may have increased access to information, however this access does not translate into knowledge, which is a key resource for developing and maintaining a successful business, in particular a business in a “knowledge-based” industry. Information, argues Prusak (2006), comes in the form of a finite message that can be distributed to anyone while knowledge is the integration of information, primarily through experience, that leads to the ability to do something. Web 2.0 may increase the ability for anyone to be able to find and download

information, however this does not translate to knowledge or the ability to utilize the information (Prusak, 2006; Rogers, 1995) to realize an opportunity.

In addition, research regarding small businesses' general lack of adoption of e-commerce technologies (Jones et al., 2003; Mehta & Shah, 2001; Zwass, 1996) and recent empirical data on issues of concern for small businesses (Phillips & Wade, 2008) suggests that small businesses primarily serve local markets. Moreover, existing data indicate that very few new small businesses are innovative, and that most are replications of existing businesses (Aldrich & Kenworthy, 1999; Reynolds, 2005). The replicative nature of most small businesses implies that few owners possess the ability to capitalize on an untapped or technically complex opportunity (Aldrich & Kenworthy, 1999). Thus, for the typical small business, neither the business nor the founder is likely to be positioned to take advantage of the opportunities created by Web 2.0 in digital industries. The reduced cost of technological development argument seems to depend on having a technically skilled member of the business that can not only recognize opportunities in digital industries but also build the technological infrastructure necessary to carry out the opportunity. This is not to say that such opportunities do not exist. What it does suggest is that small firms need access to extensive technical and knowledge resources in order to take advantage of opportunities in digital industries created by Web 2.0 technologies. Arguably, in and of itself Web 2.0 does little to mitigate challenges arising from the lack of such resources for small businesses.

Dramatic cost reductions with concomitant improved returns

Another proffered advantage of Web 2.0 is argued to go beyond the pure Web-based businesses in digital industries and extend to a wider range of small companies including those that offer more traditional goods and services. This advantage stems from alleged drastic cost reductions in marketing, sales, and distribution made possible by Web 2.0. These cost advantages are primarily accomplished through the network effects and the open and collective architecture of Web 2.0.

The combination of network effects and the open and collective architecture allows for the harnessing of collective intelligence, a key characteristic of the Web 2.0 era. One way small businesses can supposedly benefit from this is through the use of crowdsourcing to accomplish more complex business tasks less expensively – thereby potentially mitigating some resource poverty. Crowdsourcing is a concept built on Surowiecki's (2005) ideas suggesting the masses are generally smarter than the single expert, and is similar to outsourcing. However instead of farming out a service of the business to a firm that specializes in it as occurs with outsourcing, the service need is broadcast out to an unknown mass of users that compete for the job, through crowdsourcing websites. Crowd members are paid based on submitting a winning design or project, or based on the frequency and quality of their participation in a given project. Consider the experience of the founder and only full-time staff member of Trek Light Gear, a camping

gear company that needed help in product development, branding and market research. The founder turned to a crowdsourcing company and was advised by the crowd to expand his business beyond his signature light-weight camping hammock. In addition, the founder also received specific information about the product areas customers were most interested in, which served as market research to guide the expansion (Rich, 2010).

In addition to so-called wisdom of the crowds, Web 2.0 applications, including social networks and peer-to-peer sharing, create an “amplified word-of-mouth” effect (Anderson, 2006) that replaces traditional marketing channels and can dramatically reduce advertising costs (Shuen, 2008). Web 2.0 advocates argue these social links, including crowdsourcing, user generated data, and mashups all drastically lower barriers to production.

While such significant cost reductions may exist, they exist universally and are accessible to all businesses, leaving small businesses in the same relative position of resource poverty compared to large companies. The cost reductions occur because Web 2.0 is essentially an “infrastructure technology,” which according to Carr (2003) means it is not a source of a competitive advantage for any individual company, but is a basis for competition and thus, a source of risk for businesses that do not utilize it. In this sense, Web 2.0 not only fails to alleviate resource poverty for small businesses but may actually increase risk for small businesses not participating in and utilizing these technologies. Additionally, recent data suggesting that the major cost problems faced by small businesses in 2008 were primarily operational (Phillips & Wade, 2008). This combined with the limited numbers of small businesses believed to be using Web 2.0 technologies for marketing and sales (Citigroup, 2009; *The State of Small Business*, 2010), suggests that the costs savings suggested here are not likely to be mitigating any resource poverty for small businesses. Moreover, even if small businesses engage in Web 2.0 sales and marketing channels, it is unclear that this will generate a stronger ROI than traditional channels. This is due to two primary factors; the sophisticated but not well understood “back-end” of Web 2.0 and to the difficulty of identifying and measuring returns generated from Web 2.0 participation.

The back-end of Web 2.0 refers to the algorithms and site ranking programs that are critical in determining what content users actually see. Metadata and link structures drive visibility in Web 2.0, and Hindman (2008) argues that the this infrastructure creates inequality with respect to web site visibility in search results. He notes that some sites rise consistently to the top of the results while some never even get indexed by search engines. Carr (Maguire, 2007) argues further that the control that Google has acquired over online search (Google currently controls approximately 70% of the online search market (McIntyre, 2010)) gives it great power in determining what users see on the Web. He suggests Google’s algorithms ultimately drive Web traffic to a smaller and smaller range of sites, which include its own content areas (news, video, etc.). Hindman (2008) adds that part of Google’s page rank algorithm is link structure, and the more links to a site from other sites the more traffic it will receive. This, he argues, is a social process that impacts visibility on the Web and echoes Carr’s suggestion that more and more

traffic is being driven to a smaller and smaller group of sites (Maguire, 2007). The risk here for small businesses is two-fold. First, small businesses typically lack the technologically savvy human resources to understand the “back-end” aspects of Web 2.0, and as the critics above suggest, success in Web 2.0 may be driven by organization size after all.

The second major challenge to verifying the ROI of engaging in Web 2.0 technologies is the difficulty of identifying and measuring appropriate indicators of success. With the hype surrounding Web 2.0 many small businesses may have begun to participate without understanding the goals and expected benefits of such participation. As small businesses realize the significant time commitment involved in these applications, the concern over verifying the returns has grown. A recent survey of small businesses indicates that most small business owner/managers using Web 2.0 applications (primarily social media sites such as Facebook and Twitter, and writing or contributing to blogs) believe that it is paying for itself, although the numbers of those that think it has lost money almost equal those that think it has made money (*The State of Small Business*, 2010). Although it is unclear from the data how the participation is paying for itself, owners and managers express that they expect these efforts to identify and attract new customers, build brand awareness, and keep them engaged with customers. Given the challenges small businesses face due to their resource poverty, it is crucial that clear measures of ROI for Web 2.0 applications are developed. Costs of participation are not well understood but include a significant time commitment. In addition, expected returns are ambiguous and difficult to accurately conceptualize much less measure. Until such measures are identified it remains unclear whether Web 2.0 offers significant cost advantages that help small businesses overcome their size disadvantage in the marketplace.

CONCLUSIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Given the ubiquity of Web access and the permeation of the Web across numerous product and service categories, understanding and participating in the Web will only grow in importance for small businesses. Currently, only a small percentage of small businesses appear to be utilizing Web 2.0 applications (Citigroup, 2009; Jones et al., 2003; *The State of Small Business*, 2010), although it is still unclear as to whether this results from a lack of knowledge resources necessary to capitalize on the opportunities present, or is due to a lack of usefulness perceived in Web 2.0 for the average replicative small business and its typical local market. A recent consulting client with a small custom gift card business expressed that she was aware “she had to be involved in social media and other Web 2.0 things” to be successful. However, the existing data and evidence do not yet make that argument convincing. Thus, small businesses need to balance the potential risk of not participating in the infrastructure technology offered by Web 2.0 with the lack of understanding regarding the ROI in participating. The most direct way to address this challenge is for small businesses to be clear about their own reasons and goals for

participating in Web 2.0 and develop their own measures for success to evaluate the returns on that participation.

In addition, though opportunities in digital products and services do arguably exist, they require human resources with significant technological knowledge and expertise. Cost advantages present in Web 2.0 business models, such as the freemium model, appear to be based on an assumption of having human resources capable of in-house technological infrastructure development to realize the opportunity. Given the typical condition of resource poverty, it is unlikely that the average small business has access to this kind of technological expertise on staff, and outsourcing the process arguably erodes the alleged cost savings as well as risks losing a proprietary and competitive advantage. Ultimately, in light of the lack of evidence supporting the idea that small businesses can compete on equal footing with large corporations via Web 2.0, small companies should develop their own company-specific understanding about when, how, and why to utilize these technologies.

The mere dearth of analytical research on Web 2.0 and small businesses presents myriad opportunities and directions for future research on this subject. The concepts and claims regarding Web 2.0 explored in this paper suggest a few specific avenues which may be relevant and useful for guiding small businesses and developing our understanding of how web-based technologies impact the small business community.

First, conceptual arguments have been presented here that suggest there are potential opportunities for small businesses but question the claim that Web 2.0 eliminates advantages due to economies of scale. Therefore, an empirical investigation of the validity of this latter claim would not only help small businesses better understand the challenges they face in the digital economy but also answer questions regarding democratization of business raised by Web 2.0 advocates. In addition, a best-practice analysis of small businesses that have been able to capitalize on opportunities created by Web 2.0 could also help develop basic resource and operational guidelines for small businesses interested in pursuing such opportunities.

Perhaps the most obvious and practical avenue for future research is the development of a core set of metrics to evaluate the ROI of utilizing Web 2.0 applications and services. Costs of participation as well as expected returns are ambiguous and difficult to accurately conceptualize. An empirically based articulation of the costs and benefits for small businesses would enhance both the academic understanding of the usefulness of Web 2.0 as well, as offer a framework for small businesses to evaluate their success in utilizing these technologies without taxing their limited human resources.

In addition, the debated usefulness of Web 2.0 is arguably impacted by the type of product, service, and business involved. Therefore, studies analyzing the role of industry in the success of utilizing Web 2.0 for small businesses would offer some theoretical basis for the variations with regard to the usefulness of Web technologies as well as practical guidance for small businesses.

What appears to be increasingly certain is that the Web and its rapidly evolving technologies and applications are only growing in their importance to business, and may figure more prominently in the success or failure of small businesses in the future. Moreover, since its widespread adoption by the business world, the Internet has been seen as a force for equality across many domains. Recent speculation that large companies such as Google and Verizon are attempting to remove open access and offer greater speed and access to those that can pay for it (Miller & Helft, 2010), contribute to the need for small businesses and small business researchers to better understand the lay of the Internet land for small businesses. The numbers of small businesses fully engaged in Internet and Web 2.0 applications may still be relatively small, but appears to be growing (*The State of Small Business*, 2010). Thus, the academic community could serve these businesses well by addressing the questions surrounding small business and evolving Web technologies.

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ATTENTION ENTREPRENEURIAL SMALL BUSINESS OWNER (ESBO): BE YOUR OWN INTERNAL AUDITOR!

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ABSTRACT

When advising an entrepreneur small business owner (ESBO) most consultants soon realize that most small businesses don't have anyone internally to "audit" the business. Typically these areas, entrepreneurship and auditing, are studied independently to the point that few entrepreneurial families appreciate the skills an internal auditor can offer. Can a "good" ESBO become more effective by adding auditing skills into their art and embrace the goals, functions, and skills of an internal auditor? This commentary explores that question by identifying the issues and differences between the entrepreneur-small business and the internal auditing function. Where the management function typically emphasizes conceptual skills, human skills, and technical skills, this paper suggests the addition of an auditing focus on the economy, efficiency, and effectiveness of the business would greatly enhance many entrepreneurial small businesses in their quest to improve both themselves and their enterprise. The small business owner's management function could become much more effective if owners would "crossover" and adopt certain goals, skills, and functions necessary to perform internal audit activities. ESBOs should not resist this cross-pollination application as these commonalities could be developed and applied at all levels of their organization. If cross-pollination across small businesses and the auditing function could occur, failure rates for ESBOs might significantly decline so that external auditors may seldom be needed. Instead of "show me the money," most ESBOs should be "following the money." As such, this paper concludes with proven solutions on how to ESBOs can improve business operations by performing the dual roles of manager and internal auditor.

INTRODUCTION

Management skills of an entrepreneurial small business owner (ESBO) and auditing are two business disciplines that often collide in the real business world. The relationship between the small business owner and the auditor is often one of defensiveness and antagonism. It is often viewed with little consequence when the family business owner's firm is being reviewed by independent financial auditors from their lending institution. Most Emboss still view the auditor as someone that will report problems to their banker or financier; be critical of their

performance; or, even worse, potentially cause them to lose a valuable credit rating with their lender. There is a story often told in the business world that goes something like this: this underlining conflict occurs because the relationship between the ESBO and the auditor always begins with lies. The ESBO tell the first lie when he informs the auditor, "I am glad that you're here." Then the auditor follows with his own lie by saying, "I am here to help you."

The real irony about the entire relationship is that both the ESBO and the auditor should have the same motivations, goals and objectives pertaining to the effectiveness, efficiency, and economy of the business's profitability and future outlook. Each has its own distinct disciplines that delineate the goals, functions, and skills necessary to be successful. The purpose of this paper is twofold. First, we offer a critical review and comparative analysis between the goals, skills, and functions of the audit profession and those of the entrepreneurial small business owner (ESBO). While the ESBO may consider the motivational goals, skills, and functions of the two disciplines to be completely different, in fact, they should be relatively the same. Each should assist in meeting the company's goals and objectives while improving the overall effectiveness, efficiency, and economy of the operation.

This discussion will lead us into our second purpose of this paper which is to take the information that an ESBO "should" be gathering in conjunction with the auditor's report and provide "real-world" applications that can be easily implemented. We address the prospect that "good" ESBOs may become more effective by crossing into the accounting discipline and embracing some of the goals, functions, and skills that will enable them to be an effective internal auditor of their small business. While the definition of a "good" ESBO is a qualitative term, we develop a model which could assist in identifying the common goals, skills, and functions of the two disciplines which can be applied by the ESBO to do a better job in their organizations.

THE ACCOUNTING DISCIPLINE

The accounting discipline has two assurance professions that provide an attest function which may be utilized by management to assist in meeting its goals and objectives. These two assurance professions are financial auditing and internal auditing. They have their own professional standards, which are monitored and implemented by independent, self-regulating organizations (Bloomfield, 2004). These standards of both assurance services provide the auditor with the goals, functions, and skills necessary to complete the attest function in a professional manner.

Financial auditing for the ESBO is governed by the American Institute of Certified Public Accountants (AICPA) utilizing its own *Codification of Statements on Auditing Standards (SAS'S)*. This attest function centers on the reasonable and fair presentation of financial transactions in accordance with generally accepted accounting principles (GAAP). In 1972, the

American Accounting Association's *Committee on Basic Auditing Concepts* gave the accounting discipline a definitive definition of auditing:

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users (The Accounting Review, 1972).

This definition implies that auditing is both an investigative and a reporting process, which will provide relevant and reliable information to assist potential users in making decisions (Ricchiute, 2001). These potential users could be new investors, current shareholders, creditors, employees, or management personnel. Clearly, this definition was inclusive of the management function as interested users of information provided by auditors.

The research by Mautz and Sharaf (1961) gives us insight into the goals, functions, and skills of the "prudent auditor". The criteria established by this auditing research could easily apply to the management function. Their interpretation of the "good" auditor would include someone who will:

1. Take steps to foresee unreasonable harm or risk to others.
2. Attend to any resource, department, transaction, or employee that experience suggests extra risk.
3. Be aware of unusual circumstances or relationships when planning and conducting the engagement.
4. Recognize and adjust for unfamiliar situations.
5. Attempt to resolve doubt and unanswered questions about material matters.
6. Maintain competence and up-to-date on current developments.
7. Review the work of assistants with the understanding of the importance of the project.

The general and field work standards delineated in the AICPA's "Statements on Auditing Standards" (SAS's No. 1, 1972) clearly provide further guidance into the goals, functions, and skills of a "good" auditor. The general standards focus on the qualifications of the auditor and the quality of the auditor's work. These general standards are considered personal in nature as they include adequate training and proficiency, independence in mental attitude, and exercising due professional care while performing the audit. The field work standards relate to the sufficiency and competency of information needed to make a decision. Included in the field work standards are planning and supervision, a sufficient understanding of the business's internal control structure and the exercising of professional judgment regarding the sufficiency and competency of the evidence (Mayhew, Schatzberg & Sevcik, 2004).

The internal audit discipline is also governed by professional standards that establish “good” auditor goals, functions, and skills. The “Codification of Standards for the Professional Practice of Internal Auditing” is promulgated by the Institute of Internal Auditors (IIA) who also regulates the internal audit profession. Within these standards, the goal of the internal auditor is stated in the IIA’s “Statement of Responsibilities of Internal Auditors.” It states that:

The objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, and pertinent comments concerning activities reviewed. Internal auditors are concerned with any phase of business activity in which they may be of service to management. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review.

To restate, internal auditors focus on the economy, efficiency, and effectiveness of the operations. The “Codification of Standards for the Professional Practice of Internal Auditing” also states that internal auditors should be impartial, unbiased, independent, and objective in performance of their duties.

THE ENTREPRENEUR / SMALL BUSINESS OWNER (ESBO)

The ESBO differs much from her/his counterpart in corporate business primarily in well published areas of innovation, risk, intuition, and passion. Nevertheless, the ESBO naturally draws heavily from the management discipline which provides us with bright-line guidance with respect to the goals, functions, and skills if managed well lends itself to our definition of a “good” manager. The goal of management could be defined as coordinating and integrating work activities through other people to achieve efficiency and effectiveness of operations (Robbins and Coulter, 2005). Historical research by Fayol (1916) and Koontz and O’Donnell (1955) provide us with the four classical functions of management: planning, organizing, leading, and controlling. Planning encompasses defining goals, developing strategy, and coordinating plans. Organizing includes determining who, what, when, and how activities should be accomplished. Leading is defined as directing and motivating individuals. It also includes resolving any conflicts between individuals. Controlling involves monitoring and reviewing an individual’s work to ensure the coordinated activities are accomplished. These functions can be directly compared and contrasted with the functions of the audit discipline (Donnelly, Gibson, and Ivancevich, 1998).

The skills of a “good” manager can be drawn from research by Katz (1974) and Mintzberg (1975). Katz delineates three basic skills for a “good” manager. They include conceptual skills, human skills, and technical skills. This research defines conceptual skills as the

ability to visualize the broad picture and how the organization fits into that overall scheme. Nevertheless, the skills paramount to and necessary for effective control are rarely voluntary (Carey, Simnett, & Tanewski, 2000.) Human skills include the ability to directly communicate with and understand people on both an individual level and a group level. Katz correctly points out that this skill is critically important for all levels of managers. The third skill involves the ability to utilize industry specific knowledge to accomplish tasks. Katz calls these technical skills and also includes the manager having a high degree of proficiency in those specialized areas. Yet when it comes to managing the numbers, and when those numbers are sketchy, there is often doubt about how to “account” for differences within operations (Davies, 2004).

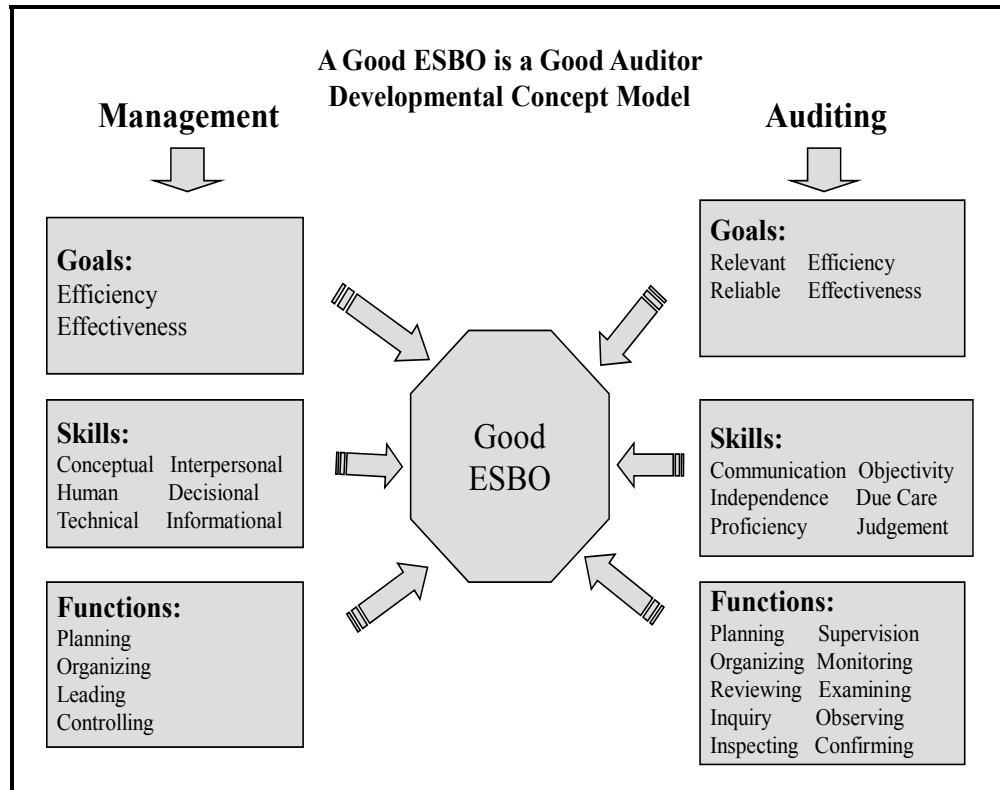
Mintzberg’s research defined different roles of a “good” manager. We can redefine these roles as additional skills needed for our manager. This would include informational, interpersonal, and decisional skills. Informational skills include the ability to act as a monitor, a disseminator, and a spokesperson in gathering, receiving, and transmitting information. Mintzberg defines interpersonal skills as the ability to lead individuals within the organization and to act as liaison with people outside the organization. Finally, our “good” manager will require decisional skills to successfully combine the informational and interpersonal skills. It is here that the manager must be able to resolve conflicts, negotiate and allocate the company’s resources both internally and externally (Robbins and Coulter, 2005).

We now have established the necessary goals, skills, and functions of the two disciplines. Professional authoritative pronouncements of the accounting discipline serve as our basis for identifying the goals, skills, and functions of a “good” auditor. The literature already recognizes that inclusion of the controller’s function is basic to sound business management (Murak, 2004). In fact some would even suggest they are becoming partners with family business owners (Williams, 2000). Fundamental research with respect to basic management principles serves as our basis for identifying the goals, skills, and functions of a “good” manager. A very vivid similarity between the two professions can already be seen. The next step is to develop our model for analysis and discussion.

OUR CONCEPTUAL DEVELOPMENTAL MODEL

Our commentary suggests that the cross-pollination of two business disciplines can be functional in identifying those common goals, functions, and skills the accounting and management disciplines have distinguished as traits of a “good” ESBO and auditor. Our model has been developed to facilitate the discussion of the commonalities of the two disciplines. As shown below, we can label a common pool from these two separate sets of traits which are applicable to both professions. It is from this common pool of skill sets that the ESBO should draw from the audit profession and develop new skill sets which should be utilized to help her/him become more effective in building a profitable business. These skills are an absolute necessity when the business is cash intensive (Murak, 2004). The developmental model suggests

that a “good” ESBO will possess not only the goals, functions, and skills as defined by the management discipline, but also possess some goals, functions, and skills of a “good” auditor.



This visual picture of the parallels between the audit profession and the ESBO is very evident. The terminology may be different but it may be argued that the goals, skills, and functions of both disciplines are very similar if not identical. Once again, the basis of our classifications is anchored in the authoritative pronouncements of the accounting profession and the fundamental research with regard to basic management principles.

Based on our models of discipline commonalities, we can now define what ESBOs should be doing to harmonize, utilize and change business practices to enhance their management skills. As previously stated, it is our belief that someone who is considered a “good” ESBO will possess the goals, skills, and functions of both disciplines. Two questions must be asked to help ESBOs make the transition from “good” to “excellent” managers: 1) What does an auditor look for and find in an audit? And 2) How can an ESBO use this information?

FOLLOW THE MONEY TO BECOME A GOOD ESBO

The auditing function centers on identifying risks areas and evaluating what mechanisms management has put in place to control those risks. By management controlling these risks, the firm's asset investment is protected, value is added and integrity maintained with respect to the financial information the manager utilizes to make decisions. For the ESBO, the highest risk areas usually involve the largest cash exposure or investment of the small business. In other words, the ESBO should simply "follow the money."

Three high risk assets that the ESBO should continually review are the cash balance on hand, inventory, and accounts receivable. These same three assets also usually absorb a very large portion of the ESBO's total asset investments. Cash has the highest inherent risk; inventory requires capital investment, floor space, insurance, and is subject to theft and obsolescence; and, accounts receivable have valuation and collectability problems. It is critical that the ESBO manage these assets to provide the liquidity needed to meet the cash needs for current and long term debt. From an audit perspective, this is also the area where the ESBO may lack the necessary internal control procedures of segregation of duties and limited access to properly monitor these assets. It is almost unreasonable to expect an ESBO to acquire the appropriate number of personnel to maintain a proper segregation of duties and provide limited access to these assets and records. The reason for this usually lies in the ESBO's concerted effort to control overhead costs to maintain the profit margins which usually leave very little room for error. However, an ESBO can apply some simple audit knowledge and skills to reduce the risk associated with these liquid assets.

With respect to segregation of duties, the ESBO should always operate from this perspective- *never give an individual the opportunity to commit a crime and the ability to cover it up*. If the same person receives, reports, records, and reconciles cash, then the ESBO may want to implement additional audit functions such as monitoring and inspection for additional control. Inspect bank statements and reconciliations or even periodically complete the required bank reconciliation for additional cash protection. Inquire and inspect the daily cash receipts for proper balancing. Verify and supervise that a daily cash deposit is made. It is not good policy to leave cash in the business place for long periods (more than 12 hours) of time even in a safe place. By making a daily deposit as early in the work day as possible, the ESBO is restricting access to the cash and increasing the interest earned on the money.

Restricting access to inventory is critical. Develop controlled access areas for inventory storage. Locked rooms, closets, or gated or fenced cage units are good for this. Observe both the receiving and shipping of inventory units. This can be accomplished by physical examination or supervision. Develop good accounting mechanisms for reporting inventory purchases, usages, beginning and ending inventory balances, production and sales numbers. Just accept the fact that an actual physical inventory count needs to be done more than once a year. Is this extra effort time consuming? Yes! However, this also establishes a strong control environment and puts all

employees on notice that inventory is being monitored. It also provides the ESBO information about turnover, shrinkage, sales, equipment utilization, and inventory obsolescence.

Always know who owes you money. Even if the ESBO uses cash basis accounting, monitor the accounts receivable to forecast future cash inflows and control the risks of someone paying late or not paying at all. Project the image to your customers that the ESBO is not a bank. However, the ESBO must also recognize that extending credit to a good customer can be good business and accept the fact that sometimes a customer just will not pay you. The balance between the two can be critical to the successful ESBO.

Finally, two legal compliance areas exist for the ESBO which potentially expose the firm's cash flow to a negative impact. These areas are often more law-related than accounting-related and open the ESBO to possible civil and criminal fines and penalties. Compliance requirements of these areas are often legalistic and technical which usually require a level of expertise outside that of normal accounting. First, general employment related compliance with OSHA and "Wage and Hour" offer potential problems. Second, tax compliance at the local, state, and federal levels of government can be burdensome and expensive.

The good ESBO can apply two audit remedies to manage these critical exposures. First, the ESBO must understand the compliance requirements. An auditor is charged with understanding important aspects of the audit client's business. This is accomplished with education and technical expertise. The ESBO should ask questions of the appropriate authorities; read authoritative publications and bulletins; and, seek legal advice when necessary. Second, document the compliance to the highest extent. Documentation is the ESBO's best friend when it comes to satisfying inquiries from legal authorities. Too much is better than not enough and remember that the burden of proof is placed squarely on the ESBO. "I didn't know about it or understand it" is not a defensive argument.

CONCLUDING REMARKS

Before we proceed, it is necessary to discuss some limitations of this commentary. Defining a "good" ESBO and a "good" auditor is a qualitative mission. This requires a value judgment by someone, and while value judgments are common in business, they are subjective. The research by Robison (1984) points out that the activity of business is not value-neutral. Further, he states that to be a good ESBO, one must have a full understanding of the characteristic effects of the management function to avoid moral situations and to attempt moral solutions if needed. One must understand that judgments are based on values, and a "good" ESBO will not undercut the system but will attempt to recognize and reconcile the limitations of the system.

The ESBO and the auditor are often seen as competing forces. Their relationship is often strained and volatile. We believe this is attributable to the misunderstanding of each other's goals, functions, and skills. This commentary attempts to demonstrate that both the ESBO and

audit disciplines have common goals, functions, and skills that can be utilized in helping the business to be profitable with clear expectations for the future. We also provided a review of current research and a developmental model to support our position. This model is used to identify the commonalities that actually exist.

Second, we extended the management function so it could become more effective if the ESBO would “crossover” and adopt certain goals, skills, and functions required to also perform the internal audit function within the ESBOs respective business. ESBOs should not resist but embrace this “crossover” as these common measures should be applied during all processes of the daily activities and in strategic decision processes for the business.

Auditors are required to develop and utilize management skills. Why shouldn't ESBOs develop and utilize auditing skills? In fact, if ESBOs can adapt this cross-discipline application of common goals, skills, and functions, we may seldom need auditors again. “Don't show me the money, follow the money!” should be the new mantra for every entrepreneur small business owner (ESBO)!

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“INFOPRENEURSHIP”: ROOTS, EVOLUTION, AND REVOLUTION

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ABSTRACT

The business of producing and distributing information products has long been established. Selling information has its roots in what might be considered a quaint beginning dating back to a time when classified ads solicited small sums from mass audiences in exchange for some “valuable” insight. The information was typically delivered by U.S. mail (with a SASE, Self-Addressed-Stamped-Envelope, required). Indeed, as the practice of selling information products evolved, the means of delivery “mail order,” came to be used to identify the business activity and the mail order industry was recognized as a major source of revenue for the U.S. Postal Service and ground package carriers. In recent times the information products industry has undergone a virtual revolution. The revolution was sparked by two major technologies. Technological improvements in electronic products resulted in a rise of numerous mediums through which the information products are provided. The second technology was the development of the Internet as a means of both marketing and distribution. While the use of printed matter is still very much alive, informational goods are now provided in myriad forms such as video, audio, and electronic publications (e.g., eBooks and reports) available online.

The widespread practice of developing, selling, and (reselling) information products is now popularly known as “infopreneurship.” Technologies such as screen capture tools have provided new ways for information to be provided—not just through the written word—but by short videos. The development of blogging software and user friendly blog Websites has made the construction of robust Websites accessible to non-programmers. The development of wiki software has resulted in the well known Wikipedia Website and others like it where the public can engage in massive collaborations. Efficient printing and reproduction technology that includes various forms of book binding has resulted in Print-on-Demand services. New Web-based publishers and some traditional publishers have reformulated the business model to publish authors who were previously unable to get their manuscripts accepted (or even considered) for publication. These are but a few of the transformations that entrepreneurs brought to the business of selling information. Yet, a paucity of research exists in scholarly journals in general, with virtually none published in entrepreneurship oriented journals. This paper presents an exploratory overview of infopreneurship, with an emphasis on possible implications for future entrepreneurship teaching, research, and practice.

INTRODUCTION

Harold F. Weitzen registered a trademark for “Infopreneur” (H. Weitzen, 1984), indicating its first use in commerce was as of January 31, 1984. According to the U.S. Patent and Trade Office (USPTO) Trademark Electronic Search System’s (TESS) records, the business endeavor with which such usage was attributed was “newsletters dealing with computerized information processing.” A definition given in Wikipedia defines an infopreneur as one who is “generally considered an *entrepreneur* who makes money selling *information* on the Internet” (“Infopreneur,” 2010a). However, the authors of this paper propose a broader definition—not restricted to the use of the Internet—might better reflect the entirety of the construct, acknowledging fully its roots, evolution, and a more recent revolution in “infopreneurship” as it has been further enabled by technological developments. For instance, BusinessDictionary.com, with attribution to Weitzen (H. S. Weitzen & Genda, 1991), suggested a description as follows:

Information entrepreneur. Business person who collects information from several sources, and combines it into novel ways to serve the readers’ needs. The term is a registered trademark belonging to H. Skip Weitzen (author of the book ‘Infopreneur’) who describes an infopreneur as “a person who gathers, organizes, and disseminates information as a business venture or as a value-added service.” (“Infopreneur,” 2010b)

Prior to the rise of the Internet, infopreneurship—though not named as such in those times—was practiced by individuals who used different mediums to carry the information they packaged into products such as printed reports, typically delivered by U.S. mail. The reputation of the business of “mail order” generally, has often been less than sterling. Further, mail order may be seen as a means of marketing and delivery. We differentiate delivery from the products themselves, which include all manner of goods and services (such as from retail catalog merchants). The National Mail Order Association’s (NMOA) Website offers a museum page, with a link to a sales letter that was originally published in the November, 1941 issue of *Mail Order Journal*. Paul Muchnick, the organization’s founder observed: “For a long time mail selling has been associated with all kinds of unethical, shady and plainly dishonest practices. Not for unjustified reasons did the expression ‘Oh, that’s some kind of mail order racket!’ originate and flourish as a by-word among mail order buyers of all kinds” (Muchnick, 1941).

In short, prior to the advent of the Internet, which has revolutionized the information products industry, infopreneurs “sold their information in other mediums such as audio tapes, audio CDs, CD-ROMs, videos, talk shows, and conferences” (“Infopreneur,” 2010a) and mail order was a primary means of delivery for physical goods distribution. We also find it intriguing that if one accepts the definition cited above for information entrepreneurship, that one so engaged is “a person who gathers, organizes, and disseminates information...*as a value-added service* [emphasis added],” then it also holds that such a process bears a striking resemblance to numerous instructional programs delivered in academic venues (starting with earlier

correspondence courses and in present-day form this would apply to numerous online training and education programs). During the era of the Internet, proprietary, for-profit institutions have aggressively used the Internet both for promoting and delivery educational courses, programs and even accredited academic degrees.

The Internet (Bender, 2006; “Nearly Half of Americans Are Frequent Internet Users,” 2009) has fundamentally changed the business of infopreneurship. Physical goods, such as printed reports, manuals, CD’s and videos are increasingly being replaced by digital downloads and other Web-based products. In other arenas, such as the music industry, the same evolutionary path—replacing physical goods with downloads—has resulted in a similar, profound shift (Fox, 2004). Finally, the emergence of the “entrepreneurial blogosphere” (Lahm, 2006) has hastened the rate of acceleration relative to changes in the information products industry (Chandler, 2006; Chew, 2006; Vengadasalam; H. S. Weitzen & Genda, 1991) at large.

REVIEW OF EXISTING LITERATURE ON INFOPRENEURSHIP

We have conducted a series of searches in the academic literature which revealed that scholarly study of “infopreneurship” (and key word variants, such as “infopreneur”) as a variable under study in entrepreneurial research has been minimal to none. We conducted a search of peer-reviewed journals using databases which included ProQuest’s *ABI/INFORM*, and *Business Source Premier*. None of those engines produced any scholarly articles from the keyword “infopreneurship.”

The search engine *Academic Search Premier* revealed one result in a journal that is oriented toward the academic discipline of librarianship. In subsequent searches, we observed a few instances in which the discipline of librarianship advocated that library practitioners and researchers should be familiar with the entrepreneurial aspects of information. We found one dissertation discussing the “ethical questions which apply to the “professional actions of the information professional” (Britz, 1997), including librarians. *J-STOR* provided one hit, a librarianship article written with Britz as a co-author, and we noted this individual’s previous association with the aforementioned dissertation.

Given the paucity of search results overall and especially those lacking in the entrepreneurship discipline with which we as researchers are primarily concerned, we found that the inclusion of infopreneurship in the literature of librarianship—while at the same time the term lacked acknowledgement in the literature of entrepreneurship—was ironic (although we acknowledge satisfaction in uncovering an area that merited further investigation in our primary discipline). For example, an article entitled “*Survival Strategies for Health Information Professionals (HIP) in Nigeria*” in the *Journal of Hospital Librarianship* observed:

There is no limit on the type of information that could be sold. It could be a story or information to assist someone to succeed in business or a favourite cake recipe of a friend’s wife. Infopreneurship

can be undertaken on-line or off-line. The difference between them is in the format of delivery of the information products. Online transactions involve delivery of products electronically such as software, e-books, video files and audio files while in offline, only printed materials or real objects are involved. (Oduwole & Onatola, 2008)

We further expanded our search to *LexisNexis Academic* and found a smattering of search results (only nine); three of these were book reviews for Weitzen's (now 14 year-old book), *Infopreneurs: Online and Global* (H. S. Weitzen & Parkhill, 1996). One of the nine was a 1988 article that had appeared in *The Washington Post*, which although quite old was at least relevant to our search efforts regarding the history of infopreneurs. That *Post* article was entitled, "Informational Entrepreneurship." Again Weitzen's name appeared (in the article) as the man who had "coined" the word "infopreneur" and was about to release his book one month hence from the time the article was published (Oldenburg, 1988). The electronic search engine *Communication & Mass Media Complete* resulted in no hits.

After demonstrating a dearth of scholarly research on infopreneurship regardless of discipline, we found that the preponderance of results from our broader searches appeared to be typically associated with aspects of mainstream publishing. However, the mainstream publishing industry and studies about that industry revealed to us an apparent disconnect between entrepreneurial information selling (infopreneurship) and traditional publishing. We would cite eBooks as an example. Numerous readers are being marketed, and mainstream publishers and booksellers are acknowledging a substantial growth trend and adoption rate (Agnese, 2010a; "Epublishing, ecommerce emerge," 2000); yet, the thousands of Websites on the Internet operated by sole entrepreneur-infopreneurs do not seem to be factored into industry studies (and it may understandably be difficult to do so). In effect, as suggested by the following passage, infopreneurs seem to be "flying under the radar" of the mainstream publishing industry:

Some people produce information products as a primary or secondary source of revenue for their business or themselves as individuals. Others use it as a complimentary offering that in some way adds value to their core offerings. Others use information products as marketing tools that serves to generate interest in their company or products and services. Still others create information products to increase their own personal visibility and credibility. ("Breakthrough Infopreneurship," 2006)

Subsequent search results derived from the use of Internet search engines revealed to us that while entrepreneurship scholars have not as yet acknowledged infopreneurship, there is indeed a large practitioner-based industry, albeit one that is ill-defined through formal research. Finally, the breadth of uses outlined in the quoted passage above suggests significant efforts to unraveling the topic of infopreneurship will be required of us and on the part of future researchers, thereby establishing a need for this present exploratory paper and our primary methodology: a broad review of activity in the practitioner community.

INFOPRENEURSHIP AS A PUBLISHING PLATFORM

Because infopreneurship is based on creating (or aggregating) a body of content, it also has interesting implications relative to traditional publishing (Gilliam & Benton, 2006; Radosh, 2004). The use of the Internet as a primary means for promoting, transaction processing, and delivery of digital and physical goods has changed the landscape of information entrepreneurship, and the traditional book publishing industry has been seriously impacted by infopreneurs.

For example, Gettman, a former speechwriter, Montessori school director and technology consultant was appalled by the costs of traditional publishing, according to an article in *Forbes* magazine (Morais & Post, 1998). Gettman teamed up in 1995 with Christopher Macann, a philosophy professor at the University of Bordeaux to form On Line Originals. Their business model was designed to avoid the costs of traditional publishers by mitigating printing costs, inventory costs, and what they viewed as outlandish advances. Funded with approximately \$10,000, mostly for computer equipment, the pair enlisted a graphics designer and set about publishing virtual books by quality writers who may have been rejected by the mainstream houses. By offering authors 50% royalty on a \$7 download price of their inventory, they were able to secure lots of manuscripts from authors whose works had been rejected by conventional publishers. This business model has been replicated by hundreds if not thousands of online publishers (“Online Publishers’ Association,” 2010). The impact of these infopreneurs has also had a disruptive impact on mainstream publishers by slicing through the traditional publication industry processes that have involved agents, publishers, distribution channels, and retailers (Agnese, 2010c; Brynko, 2005; “The International Conference on Information and Infopreneurship,” 2007).

Entrepreneurial firms like Lulu.com have emerged to serve authors who want to be published. In March 2010, Lulu.com issued a prospectus related to their Initial Public Offering revealing that the number of units sold over the past three years rose 47% to 2.6 million (of which 2.3 million were printed books). The company generates its revenue from charging authors for its fees and services (\$100 to \$16,000 per title), plus it takes a percentage as commission for each title sold. Since its inception, Lulu has had more than one million titles for sale on its site and adds 20,000 titles per month (Milliot, 2010; O’Hara, 2008). Other major online publishers include Cafepress.com, Xlibris.com, Author House and iUniverse.

The impact of the Internet has touched the traditional textbook publishers (Agnese, 2010b). Cengage, McGraw Hill, and Pearson are the three largest university textbook publishers, and they now offer Websites to enhance their hardback textbooks. They also offer students the opportunity to either access an eBook or purchase access to specific chapters. This is in addition to restricted access sites supporting particular texts with ancillaries (videos, quiz and test sites, and additional materials). The editorial costs of developing a textbook plus the costs of a variety of supplements for both student and instructor use, typically require a

substantial investment in up-front capital (Agnese, 2010b). Some colleges have used self-publishing to stimulate students into writing. Champlain College offers a course that requires students to publish their efforts on Lulu.com. (Spain, 2010)

The changes in the publishing industry are the subject of Tim O'Reilly's Tools of Change Conference held annually in New York (Paxhia, 2009). The conference features change agents like the president of Lulu.com and technology companies displaying the latest in print on demand (POD) technology. At the most recent conference, Jason Epstein displayed his company's Espresso Book Machine which is capable of operating at 20 pages per minute at a cost of \$.01 per page. Xerox Corporation offers larger publishers its "Book Factory," which combines a high speed copy machine with a bindery to produce perfect-bound books ("Xerox Docu-printers," 2010).

It was not until fairly recently that conventional bookstores started carrying music along with some inventory of movies. However, Amazon.com, AllRomanceEBooks.com and their related OmniLit.com (and many other purveyors of "knowledge" products) routinely offer their customers traditional printed books, videos, and music which may be delivered or downloaded directly to the customer's computer.

SELLING "SHOVELS TO PROSPECTORS"

Just as in the days of the California Gold Rush, there are some Web-based entrepreneurs who seek their fortunes by selling information that they have created (which address a virtually endless range of subjects). However, there is also a group which makes their fortunes through "selling the shovels to prospectors" by concentrating their efforts on a plethora of "how to make money on the Internet" products (Chandler, 2006; Dawes, 2004). Both groups serve their audiences by utilizing the Internet as their platform for marketing, for displaying their products or services, taking orders and for delivering through downloads e-books, pamphlets or videos.

For some infopreneurs, their business involves creating their own content and reselling those products, while others use a different model: that of creating a Website with the explicit hope that their readers will "click" on advertisements and make a purchase which results in a commission. The concept of earning a commission from a visitor to a blog or Website is referred to as "passive" income. Those who market "how to make money on the Internet products" actively promote their informational products as answering the question of how to earn "around-the-clock" (MacMillan, 2008).

These infopreneurs promote the concept that the Internet being open 24-7-365 on a global basis provides an opportunity to develop a site that becomes a revenue generator while you sleep. The open-for-business-24-hours feature of the Internet has its advantages for the vendors whose stores are open to a global market and have no issues related to time zones. However, there is another side of this reality for bloggers who feel compelled to frequently monitor and update

their sites. Some commentators have described the Internet as having created a new sweatshop: home (Richtel, 2008).

An example of an entrepreneurial firm that fits the infopreneurship description is AllRomanceEBooks.com, which has grown from 2,000 titles to 3,000 from their start in 2006 to 2009. Barb Perfetti and Lori James started a second site called OmniLit.com. Unlike stores that have walls separating them, the two digital entrepreneurs allow customers to shop at both sites with one shopping cart (Reid, 2009).

OPPORTUNITY AND DISRUPTION DUE TO DIGITAL DELIVERY TECHNOLOGIES

The Internet and the ability to download music have proven to be a major disrupter for the music industry. Some musicians are now creating their own music and posting it on the Internet for sale thereby completely stepping away from the standard music industry of agents, distributors and retailers (Fox, 2004). Similarly, some authors are creating novels, how-to instruction eBooks, audio and video productions, as well as other works of non-fiction to sell exclusively through the Internet. Amazon.com accommodates these self-published authors by offering to sell their products via their own personalized Associates Store on the Web.

The impact of these infopreneurs has also had a disruptive impact by slicing through the traditional publication industry that involves agents, publishers, distribution channels, and retailers. To accommodate these authors, entrepreneurial firms like Lulu.com have emerged to serve authors who want to be published.

However, substantial new businesses have arisen to facilitate the exchange of digital goods. One of the earliest is Clickbank.com. Facilitated by Clickbank's exchange marketplace, authors provide digital goods, sample sales copy (or a site to which end-user purchases should be directed) using special links provided by Clickbank. They may also set an affiliate commission rate paid to other Clickbank users who might (re)sell their products. When a transaction occurs, Clickbank processes the sale, takes its fee, and divides the author's portion and the selling affiliate's portion accordingly. There is even an organization devoted to on line publishers founded in 2001 called the Online Publishers Association ("The Story of Blogger," 2010).

INFOPRENEURSHIP: A TOOL FOR BOOTSTRAPPING

The business of infopreneurship has a number of appealing benefits. Relative to product development, the use of information products is an extremely inexpensive (Chandler, 2006; H. S. Weitzen & Genda, 1991). Individuals who may possess acquired knowledge (perhaps in pursuit of a serious hobby), expertise on any subject, or possess research skills (Dawes, 2004) may easily create new information products from scratch. "The classification of infopreneur has created a new style of business on the Internet, which allows anybody with a computer and an Internet

connection to start a businesses [sic] by publishing information that may appeal to a specific market” (“Infopreneur,” 2010a).

Beyond this and relative to distribution, one of the interesting features of the Internet as a distribution platform for information products is its relatively low cost barriers (Lahm, 2006). Domain names are available for less than \$10 a year, Internet connections are available for less than \$30 a month, hosting is less than \$5 a month, and computer systems are available for a few hundred dollars (not to mention that bloggers have used public computers to create and run Websites).

Once a prospective buyer has arrived at a site, there are numerous strategies for monetizing the site. One is to use Google’s AdSense, which gives Google permission to automatically post advertisements based on the reader’s interest. If the viewer decides to click on the advertisement (either a textual link or a graphic), the owner of that Website earns a small commission on sales (or a click fee). Dozens of other matchmaking services have arisen (as an entire industry) to couple those who have Websites (publishers) with those who have advertising messages which they would like to have displayed on the publishers’ sites.

A more sophisticated approach is to build a mailing list with potential customers by promoting “opting-in” to give their permission to receive future emails. Should the receiver later wish to “opt-out,” he or she may do so using a special link in emails that are sent (“FTC: Consumers Receiving Less Spam,” 2006). Another approach to building an email subscriber list involves using a banner advertisement or other special effect. As an example, an offer of something “free” might be presented with a pop-up (or pop-under) panel dimming the user’s screen until a response is given. The prospect is thereby invited to submit his or her email address in exchange for the free offer. Once the viewer either dismisses the panel or accepts the sign-up form for future emails, his or her screen comes back to life.

The underlying strategy is to offer enough “free” information or other benefits to build trust and entice the reader to want more, and to eventually make a purchase. The infopreneur’s next step is to devise emails with interesting topics and persuasive text full of enticing language; newer Website approaches may use audio introductions or short video advertisements with testimonials to induce the viewer to make a purchase.

Other strategies include offering RSS feeds to viewers. Atom and RSS are created using the XML (Extensible Markup Language) data format for publishing information feeds. The blogger or electronic vendor uses this tool to tip-off readers when new content is available. Since RSS is a built-in feature of widely established blogging software platforms (such as WordPress), blogs, news channels, auctions, and Podcasts use RSS feeds to maintain contact with their subscribers or readers (Tebbutt, 2007). From a commercial standpoint, the RSS feeds are yet another means of maintaining presence in front of a target market.

Hence, infopreneurship, as a business, is suitable for bootstrappers (Hyatt & Mamis, 1997; Lahm, 2005; Worrell, 2002), as it represents technologically leveraged, yet low cost startup opportunity “to individuals who have little or no collateral, little or no cash, little or no

entrepreneurial experience, little or no training, and little or no choice but to pursue an entrepreneurial dream without the benefit of resources which would ordinarily be nice to have” (Lahm, 2005).

THE COMMON CHALLENGE: MARKETING

There is one common challenge facing those who aspire to profit with information products—over the Internet or otherwise—and that is marketing. Simply building a Website is not enough. The World Wide Web has literally billions of Web pages. The problem for infopreneurs is how to get individuals or businesses to visit their Web site (Lahm, 2007; Levinson, 2005).

In the early days of the Web, infopreneurs and other vendors would use programs to randomly create emails or they would try to purchase email lists from either legitimate compilers (or from hackers). However, the passage of the CAN-SPAM Act was an attempt to trim down the use of unsolicited emails by Internet marketers. While there is some dispute as to its effectiveness (Blackshaw & Nazzaro, 2004), the penalties and exposure to civil litigation has definitely discouraged legitimate firms from the use of unsolicited spam mail. Some critics argue that the CAN-SPAM Act is still not satisfactory (Arora, 2006; Grimes, 2007; Soma, Singer, & Hurd, 2008). “First, because the Act is limited to commercial spam, it allows other types of spam, including political spam, to invade recipients’ privacy interests. Second, the Act does not reduce the amount of spam to a sufficient degree” (Fleming, 2005). Despite criticism about a lack of effectiveness, according to a report issued by the Federal Trade Commission, the law and its enforcement efforts have seriously reduced the amount of spam (Bender, 2006).

None the less, the issue of how to get traffic to a site is absolutely critical to building a successful Web-based company. The competition for placement on search engines is intense. Using conventional advertising to promote a Website is well above most infopreneurs’ financial resources.

Given the predominance of the use of search engines such as Google.com, Yahoo.com, Ask.com and others, the current strategy for marketing has been to optimize search engine positions. The term search engine optimization (SEO) describes one of the techniques that infopreneurs can use to acquire viewers or prospective customers. How to achieve a “high” position on a search is the subject of many Websites and informational products aimed at prospective infopreneurs (“Major Search Engines and Directories,” 2007).

CONCLUSION

As this paper suggests, “infopreneurship” is especially relevant to those whose disciplines may include entrepreneurship (and entrepreneurial marketing). Most compelling to information entrepreneurship practitioners perhaps, is the fact that products typically consist of aggregated

information or are developed based upon a creator's own familiarity with a subject matter, for little or no cost. Infopreneurs also have a variety business models that allow them to acquire written material from authors for virtually no upfront costs, and the Internet provides a world wide 24-7-365 marketplace with very low barriers for entry. The present generation of infopreneurs has caused a serious disruptive impact on the music, publishing, advertising and film industries, while also being associated with new businesses such as advertiser and Web-publisher intermediaries.

To be successful, infopreneurs must keep abreast of constant innovations in both hardware and software (or outsource, which many tend to do). New hardware such as the development of smart phones (Barbierri, 2010; "Smartphone Futures," 2010) and new eBook readers (Hane, 2009) provides additional platforms for transferring information. However, changing technologies also require continuous evolution of business models and strategic adjustments to satisfy an insatiable demand for information and entertainment. New software that creates social media sites, new marketing techniques and an ever expanding market bode well for merchants of information who are able to analyze the landscape for opportunities.

Not only has the Internet invigorated this new class of infopreneurs, but it has also empowered individuals to challenge traditional mass media as sources of news, information, and opinions. Blogging has democratized mass media by empowering the public at large to serve as news gatherer-reporters, analysts, and critics, while a revolution in the information products industry is having ripple-effects in the shadow of the mainstream publishing, music and film industries. Given the vibrancy of activity in the practical community, infopreneurship has emerged as an important subset of entrepreneurship.

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NEIGHBORHOOD SMALL BUSINESS RECOVERY: THREE YEARS AFTER KATRINA

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ABSTRACT

On August 29, 2005 Hurricane Katrina hit the City of New Orleans. Some 80% of the City of New Orleans had flooded areas. Both flooded and non-flooded have been recovering these past three years. One of the relatively undamaged and unflooded areas was Oak Street, a commercial strip of some two blocks in Western New Orleans. In January 2007 a summit meeting of Oak Street small businesses was held by Stay Local!, a local nonprofit organization to bring together Oak Street businesses and to develop a foundation for future development. In the fall of 2008, five of those businesses attending the 2007 Summit were studied to assess any changes. The purpose of this study is to examine the recovery of small neighborhood businesses as they move from a major disaster to weak economic conditions.

The 2007 Summit reflected uncertainty due to Katrina. Today (2008), the uncertainty lies in the perception or reality of the economy, local and national with additional worries brought on by street construction. The summit brought out feelings of no help from city government. That feeling persisted in 2008. The mood in 2008 was one of negativity in contrast to the cautious optimism of 2007. Concerns exist over cash flow and rising costs. A theme that was prevalent in both 2007 and 2008, particularly for tenants in the blocks closest to Carrollton Avenue, was the lack of parking space.

Many of the Oak Street businesses are operating with very thin capitalization, and are still trying to recoup the losses from Hurricane Katrina while staring down the looming national economic crisis which affects their access to credit, their operating costs, and their foot traffic. Any disruption to daily operations, whether a mandatory evacuation, street repairs, or a spike in criminal activity are cause for concern for Oak Street merchants.

Oak Street's small businesses have a strong ally in the Oak Street Association. The association has been actively promoting the area as a shopping destination for locals and tourists. Oak Street is well-positioned to weather the current economic downturn and continue on an upward trend. Oak Street offers the opportunity for the tourist to get off the nearby streetcar line and visit an authentic New Orleans neighborhood with a diversity of goods and services packed into a walkable corridor.

INTRODUCTION

On August 29, 2005, the most destructive hurricane (Katrina) in the history of the United States struck the City of New Orleans, surrounding parishes and the Mississippi Gulf Coast. Katrina claimed over 1800 lives (Bevan et. al. 2006) and caused an estimated \$81.2 billion in damage (Wikipedia, 2006). Major breeches in the New Orleans levee system left some 80% of the city flooded (Murphy, 2005).

The impact of Katrina and subsequent flooding and wind damage was felt in many ways. Entire neighborhoods were depopulated resulting in a reduced customer base, lost markets, and closed businesses (Lacho, Bradley & Cusack, 2006). Some neighborhoods experienced severe flooding, others did not. During the past three years some neighborhoods became revitalized, others have not. This study examines the status of small businesses in the Oak Street neighborhood in New Orleans three years after Katrina.

PURPOSE

The purpose of this study is to examine the recovery of small neighborhood businesses as they move from a major disaster to weak economic conditions. Specific issues to be addressed include:

- 1 What is the impact of Hurricane Katrina three years later? What actions did the owners take to recover from Katrina? Where did they go for assistance?
- 2 What are their current business problems? Where have they gone for help?
- 3 How have current economic conditions affected their business? What have they done about it?
- 4 What is their view of the outlook of the economy in the future?
- 5 How much help has the Stay Local! organization been to these businesses?
- 6 How much help has the Oak Street Association been to these respondents? What could the association do to help in the future?

BACKGROUND

The Urban Conservancy is a New Orleans based nonprofit dedicated to research, education and advocacy that promotes the wise stewardship of the urban environment and local economies. Stay Local! is a program of The Urban Conservancy and is a city-wide initiative for creating a strong economy based on locally-owned and operated businesses in New Orleans. Stay Local! raises the visibility of locally owned businesses while encouraging consumers to patronize independent businesses, especially in one's own neighborhood, whenever possible.

On January 12-13, 2007, Stay Local! hosted a Business Recovery Summit in collaboration with various partner organizations. The purpose of the summit was to bring together local business and advocacy organizations to open a dialogue and develop a foundation for new partnerships.

The basic approach to the summit was to meet in neighborhood business districts and hear the stories, successes and frustrations as voiced by the business owners themselves. Advocates representing grassroots, citywide, regional and national entities visited three key neighborhood commercial districts. Locally-owned businesses and organizations that work with them reported on business recovery efforts and discussed long-term strategy issues for overcoming common problems.

The three neighborhood districts selected were Oak Street, Mid City and Bayou Road, off N. Broad St. The districts were selected to give participants a broad view of neighborhoods that differed both in terms of racial and socioeconomic composition, as well as in the amount of flood damage sustained. Oak Street suffered only wind damage, while Mid-City and Bayou Road were submerged in several feet of water.

RESEARCH METHODOLOGY

Five businesses which were members of both Stay Local and the Oak Street Association were chosen. A questionnaire was designed by the researchers and reviewed with the manager of the Oak Street Association. The questionnaire was made up of open-ended questions which allowed for probing by the interviewer. Questions centered around the problem areas described above. Demographic data about each business were gathered. The answers to the open-ended questions were subjected to content analysis. Interviews were conducted with the business owner and lasted one to 1.5 hours. This research should be considered as an exploratory case study. It offers opportunities for future research. For example, how can local government be of greater assistance to small business owners, especially after a major disaster or during difficult economic times? How would this differ between urban versus rural communities? How can nonprofit groups such as Stay Local! or neighborhood associations such as the Oak Street Association be of assistance to small businesses?

FINDINGS

The Oak Street businesses surveyed were the Italian Restaurant, Speed Graphics, Creative Antiques, Smith's Shoes, and King of the Realm. Actual names have been disguised.

In the fall of 2006, Oak Street was awarded a Main Street grant from the National Trust for Historic Preservation, disbursed through Louisiana's Department of Culture, Recreation and Tourism. This designation has provided technical, organizational, and financial assistance, enabling merchants to hire a "Main Street manager" and develop the Oak Street Association, a

highly structured business and residents' association. Its mission is to improve, protect, and preserve Oak Street and the surrounding neighborhood as a way of maintaining its historic and cultural heritage.

The Italian Restaurant was founded in 2004 and until Katrina, was located in the food court of the Riverwalk Shopping Center in downtown New Orleans. When Katrina hit in 2005, the business was victimized by looting. The owners foresaw a long, slow return of the healthy tourist market that its location marketed to and moved to its present Oak Street location. It has three part-time employees and four family members who work full time. Yearly sales are about \$250,000. Its target market is college students from nearby Tulane and Loyola universities. Promotion methods include fliers, brochures, sales promotions, and listing in fraternity directories of local universities. The restaurant has received assistance from the U.S. Small Business Administration, Louisiana Department of Economic Development, Idea Village (local nonprofit), and the Oak Street Association. No assistance was received from the City of New Orleans. Current problems include getting capital, cash flow, and current economic conditions. Because the owner was still paying off his initial loan to open his original business (opened in 2004) when Katrina hit, and then had to start over from scratch, he now finds himself paying off two loans but having only one restaurant to show for it. The firm is not waiting for recovery assistance. All insurance claims have been paid.

The business is a member of the Oak Street Association, the Louisiana Restaurant Association, and Stay Local!. Affiliation with Stay Local! has increased the firm's visibility. On the other hand, customers show little interest in knowing that the business is locally-owned. The owner would like to have Stay Local! help him get financing. He is interested in working with the community to finance a parking lot and grow the street's commerce.

Speed Graphics creates signs and banners. It has been in business since 1982. Sales per year were not disclosed. The company targets small business in the Metro New Orleans area. Promotion efforts include signs, brochures, the New Orleans Yellow Pages, and word-of-mouth. It is owned and operated by a husband and wife, and has no additional employees.

The company received minimal damage from Hurricane Katrina. It received assistance from the U.S. Small Business Administration, none from the City of New Orleans or any nonprofit organization. The owners' home in Broadmoor was completely flooded. Like many resident-business owners in New Orleans, after Katrina, they opted to pour their limited insurance and other finances into re-opening their business and delay their home rehabilitation. The owners have resided at their business since Katrina.

Current problems include finding capital to operate the business, increased business expenses, and cost conscious customers. The owners would like a business recovery loan or grant. They applied for a second recovery loan from the SBA but never received a return call. The owners are not optimistic about the present business climate in New Orleans.

Speed Graphics belongs to Stay Local!. Affiliation with Stay Local! has not increased its business visibility. The owner would like Stay Local! to get merchants to do cooperative advertising and to do public service announcements for Oak Street.

Creative Antiques was founded in 1987. It sells and restores antiques. Sales are estimated to be \$2.5 million dollars. Creative Antiques received some wind damage from Hurricane Katrina. In the post-Katrina era it has a 5 year waiting list. Sales are up. Since Katrina, in addition to the antique restoration, the husband-and-wife owners also operate an online hot tub sales business.

Creative Antiques does not have a specific target market. Promotion includes direct mail and word-of-mouth. It received assistance from the Small Business Administration but none from local government. Insurance claims filed were paid in part. The primary current problem is the rise in business expenses such as utilities, insurance, and property taxes. The owners are not optimistic about the business climate in New Orleans.

The firm is a member of the Oak Street Association and joined Stay Local! in 2007. The owner would like to see Stay Local! offer business seminars to educate businesses on how to deal with the current economic situation. How to save money on taxes would be helpful.

Smith's Shoes is a family business dating back to 1921. It sells footwear for men, women, and children as well as clothing and accessories. The store targets customers in the local area and Metro New Orleans. Hurricane Katrina brought some roof damage; however, the store was back in business three weeks after the storm. None of the employees returned and the husband and wife, who own the store, and occasionally the husband's nonagenarian mother, have been the sole employees since Katrina. They have moved from suburban Harahan and now reside in the apartments above the storefront to eliminate the commute. The client base for the store has not changed much; however, sales have declined since Katrina. Promotion consists of charitable contributions, school fairs and word-of-mouth.

Smith's has received no assistance from federal or local government agencies, or nonprofits. Business expenses have gone up. Insurance claims were filed and paid. The store's current challenge is the lack of parking. The owner has neutral feelings about the business climate in New Orleans.

The owner of Smith's store joined Stay Local! in 2004. He feels that his Stay Local! membership has not helped his firm's visibility. On the other hand, his customers show an interest that his business is locally owned. The owner would like to see Stay Local! help finance a community parking lot for the Oak Street stores.

King of the Realm is an indoor snowball stand dating back to 2006. Its sales are less than \$250,000 per year. Targeted customers are neighborhood locals and tourists. The business was not in operation at the time of Katrina. The owners' previous business was a vintage clothing boutique located on Oak Street (but at a different location). Roof damage sustained in Hurricane Rita resulted in water damage to virtually all of her inventory and resulted in a radical change to the owner's business plan. She knew she wanted to remain on Oak Street, and decided to open

her dream business: a sweets shop. She researched snoball equipment and syrup formulas and taught herself what she needed to run the business. She and her husband made extensive renovations to a former hair salon to convert into a boutique snoball parlor.

King of the Realm has received technical assistance from Idea Village, none from federal or local governments. King of the Realm is promoted by signs, fliers, church bulletins and in the Tulane and Loyola University directories. Print ads and publicity pieces have appeared in the daily newspaper and other print outlets.

During 2008, business expenses such as utilities, insurance, and taxes have gone up. The owner would like to expand to a second site, however, she is more interested in surviving than expanding her business. She is optimistic about the present business climate in New Orleans.

The owner of this business is a member of the Oak Street Association and joined Stay Local! in 2005. Her affiliation with Stay Local! has increased her firm's visibility. Customers do not show an interest in the fact that the firm is locally owned. The owner would like Stay Local! to help in getting a community parking lot and group advertising. Help is needed in getting financing. Classes are needed in taxes and bookkeeping.

DISCUSSION

The findings suggest that recovery from the effects of Hurricane Katrina is no longer a concern of these small business owners. Despite continuing to live with the after-effects of the hurricane (such as living in their place of business), business owners consider Katrina a distant bad memory. The participants are more concerned about present and future economic conditions and the rising cost of doing business.

Four of the five respondents were not optimistic about the New Orleans economy. Their perception is that times are bad, economy wise. Overall, the economy in New Orleans is not that bad. There are soft spots. For example, the retail sector has taken a hit as high gasoline prices gave way to uncertainty over the effects of the global economy. Some Mardi Gras Krewes are not marching in the 2009 Mardi Gras parades. (Webster, 2009, January 19). Retailers have reported customers cutting back over growing concerns about the economy. The visit of Hurricane Gustav provided another hit (Retailers feel economic pinch, 2008). Advertising agencies have cut back due to the decline in advertising by auto dealers. Sectors hit hard as well include retail and tourism while health care, government and nonprofits appear to have retained spending levels for promotion (Guillet, 2009, January 9).

On the other hand, the unique dynamics of rebuilding the area after Katrina have kept New Orleans (and Louisiana) somewhat insulated from the effects of the national economy. Money is still flowing through the area especially for long-term infrastructure projects such as roads, bridges, and levee protection for years to come (Mobray, 2009, January 11). For example, the U.S. Army Corps of Engineers is launching \$4 billion in contracts for levee and drainage projects in 2009 alone. This has resulted in an influx of jobs, cash and companies for already

approved projects. The Corps has also reached out to small businesses owned by minority contractors (Schieifstein, 2009, January 11).

The New Orleans recovery is trending upwards. Employment and population are on an upward path. The pressure of recovery is unlikely to stop in the near future, although the pace of recovery will slow as time moves on (Metropolitan Report, 2008, December). On the other hand, the longer the U.S. recession continues, the more vulnerable the New Orleans economy becomes (Mobray, 2009 January 11).

The lack of optimism by the majority of respondents about the local economy, reflects sales decline in their businesses. On the other hand, the New Orleans economy has done well relative to the U.S. economy.

Another concern of the respondents is the rising cost of doing business. They are not alone. A national survey by the National Federation of Independent Business (NFIB) shows top concerns among small business owners are business costs, especially those that are difficult to control such as health insurance, energy costs (fuel and electricity), supplies, inventories, and workman's compensation insurance (National Federation of Independent Business, 2008, January 16). An August 2008 survey by Echo Research found that manufacturers, retailers and service firms felt that the biggest challenge they face is the rising costs of business in an uncertain economy. (American Express...2009, January 12). Closer to home, the average weekly wage for Orleans parish rose from \$919 in 2006 to \$1,005 per week in the first quarter of 2008. Retail trade wages actually declined from \$521 to \$443 per week during the same time. (<http://www.laworks>).

Restaurants are a major part of the New Orleans economy. They are faced with similar increases in the cost of doing business. During 2007, food costs increased 18%, insurance 95%, labor 31%, water 37%, gas 30%, and electricity 31%. These are extreme increases especially in the area of insurance (Funk, 2008, March 20).

Several respondents received federal aid although there was some frustration over the complexity and the time lag in receiving these services. No assistance was received from local government.

All of the businesses surveyed belong to the Oak Street Association as well as Stay Local!. There was little or no membership in other business organizations. The restaurant, however, does belong to the Louisiana Restaurant Association (LRA). There is no evidence that the owner has taken advantage of the services offered by the LRA. During this time period, the Greater New Orleans Chamber of Commerce was not very active, having yet to recover from Katrina. Several of those surveyed are very active in the Oak Street Association.

It was felt by the respondents that Stay Local! was helpful in increasing the visibility of their businesses, but not much help in generating sales. More help is desired of the Stay Local! organization especially in getting better parking facilities and cooperative advertising perhaps tied in with the current promotion efforts of the Oak Street Association.

Parking is viewed as a very serious problem, particularly by some of the business owners within the blocks closest to Carrollton where density is very high and patrons of the coffee shops tend to disregard the two-hour parking limit to the detriment of other businesses nearby. However, a surface parking lot along Oak Street would run counter to best practices and proven models for revitalization of historic commercial corridors, where walkability and density of storefronts is important. The Oak Street Association is actively working to educate its business membership on best practices in walkable urbanism, while advocating to appropriate City departments on implementing enforcement of 2-hour parking limits, installing bicycle racks, and touting its proximity to the streetcar to minimize automobile congestion. Stay Local!'s major thrust should be working with the Oak Street Association in developing a cooperative promotion strategy, getting funding, and implementing strategy. Also, local businesses should be made aware of the free or low-cost business seminars made available through the Louisiana Small Business Development Center (SBDC) of the Greater New Orleans Region. These are mostly conducted at the Jefferson Center in nearby Jefferson Parish. A comparison of the findings of the January 2007 Summit and the findings of this survey are discussed next.

In 2007 business owners were frustrated with the lack of leadership and progress by the New Orleans City government. They still are.

The 2007 Summit findings reflect doing business in uncertain conditions following a major disaster. Conditions in the fall of 2008 are still uncertain, however, the uncertainty is due to the condition of the local and U.S. economy. As noted above, this area received no flooding from Katrina and little wind damage. Hurricane recovery was not nearly as difficult as the other areas represented at the 2007 Summit as well as the rest of the city.

Concerns at the 2007 Summit were voiced over the lack of support of small business by banks. They felt that grants and other financial aid available were available to homeowners but not to small business owners. To the contrary, grants and loans were available through the Louisiana Recovery Authority to small businesses after Katrina. An initial program provided grants of \$20,000-\$100,000. A second round provided packages of grants of 20% and loans 80% of the money needed. The U.S. Small Business Administration had disaster recovery loans available as well as those under their regular loan programs. Concern over loans was not voiced in the fall of 2008.

The primary money concerns in the fall of 2008 had to do with maintaining cash flow under the slowing of sales and rising costs of doing business. Concern over cash flow is similar to small businesses nationwide as found by Echo Research. Some 55% of small businesses across the U.S. are experiencing cash flow problems, especially retailers (American Express.. 2009, January 12).

The mood of most of the attendees at the 2007 Summit is best described as cautious optimism. In contrast, the mood in 2008 is more negative reflecting real or perceived views of economic conditions rather than the effects of Katrina. At the 2007 Summit a need was expressed for improved infrastructure. However, major street improvements that are now

underway are adding to the anxiety of the business owners who are concerned that it will create long-term disruption and serve as a deterrent to shoppers.

There are several happenings which should have a positive impact on the future of Oak Street. Few of these were mentioned by the respondents. For one, the street is being refurbished. Some business owners are concerned about business interruption during the period of construction.

The Louisiana Department of Culture, Recreation and Tourism has announced that Oak Street has been certified as one of the first Cultural Products Districts in Louisiana. Property owners now have the ability to apply for state historic tax credits for revitalization projects and to market the sales of original art on a tax free basis.

Another important aspect of Oak Street is its three year membership as a part of the Main Street Program. The program is a community-driven comprehensive methodology used to revitalize older traditional business districts through the U.S. It encompasses a four point approach, design, economic restructuring, promotion and organization. The association has committees addressing each of these points. The Design Committee works with the Main Street staff in Baton Rouge, Louisiana regarding annual facade grant awards. Grant funds are available to improve store fronts. Last, special events sponsored by the Oak Street Association have been found to benefit the businesses located there. Future events are planned.

CONCLUSION

On August 29, 2005 Hurricane Katrina devastated Southeast Louisiana and the Mississippi Gulf Coast. Some 80% of the City of New Orleans had flooded areas. Both flooded and non-flooded have been recovering these past three years. One of the relatively undamaged and unflooded areas was Oak Street, a commercial strip of some two blocks in Western New Orleans. In January 2007 a summit meeting of Oak Street small businesses was held by Stay Local!, a local nonprofit organization to bring together Oak Street businesses and to develop a foundation for future partnerships and development. In the fall of 2008, five of those businesses attending the 2007 Summit were studied to access any changes.

The 2007 Summit reflected uncertainty due to Katrina. Today (2008), the uncertainty lies in the perception or reality of the economy, local and national with additional worries brought on by street construction. The summit brought out feelings of no help from city government. That feeling persisted in 2008. The mood in 2008 was one of negativity in contrast to the cautious optimism of 2007. A theme that was prevalent in both 2007 and 2008, particularly for tenants in the blocks closest to Carrollton Avenue, was the lack of parking space.

While Oak Street has the potential to be one of the most vibrant commercial corridors in New Orleans, many of its businesses are operating with very thin capitalization, and are still trying to recoup the losses from Hurricane Katrina while staring down the looming national economic crisis which affects their access to credit, their operating costs, and their foot traffic.

Any disruption to daily operations, whether a mandatory evacuation, street repairs, or a spike in criminal activity are cause for concern for Oak Street merchants.

Oak Street's small businesses have a strong ally in the Oak Street Association. As part of the Main Street Program, the association has been actively promoting the area as a shopping destination for locals and tourists. It has also secured matching grants for store owners to make facade improvements, and worked in partnership with Stay Local! to apply for and receive certification from the State as a Louisiana Cultural Products District.

As valid as concerns of individual business owners are, Oak Street is well-positioned to weather the current economic downturn and continue on an upward trajectory. Oak Street offers the opportunity for the tourist to get off the nearby streetcar line and visit an authentic New Orleans neighborhood with a diversity of goods and services packed into a walkable corridor. The street improvements underway will add to Oak Street's curb appeal and serve to draw visitors down the length of the corridor.

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