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LETTER FROM THE EDITOR

Welcome to the *International Journal of Entrepreneurship*. We are extremely pleased to be able to present what we intend to become a primary vehicle for communication of entrepreneurship research throughout the world.

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Monash University, Malaysia

MANUSCRIPTS

ENTREPRENEURIAL NEGOTIATIONS: AN EXPLORATORY U.S.—CHINA PERSPECTIVE

Robert M. Peterson, William Paterson University

ABSTRACT

Negotiation research generally focuses on what transpires at the table, by-passing the crucial pre-negotiation phase. This introductory work has one central objective- to explore the relative importance of the pre-negotiation, active negotiation and post-negotiation phases in the minds of entrepreneurs from different parts of the world. Results from this exploratory study show no differences when comparing U.S. and Chinese small business owners across the three negotiation phases, even when the groups were anticipating a highly competitive or collaborative encounter.

INTRODUCTION

Conflict is a growth industry that pervades international relations and entrepreneurial processes (Fisher, Ury, and Patton 1991; Graham 1983; Roloff 1987), and is seen as the growing method for interacting with the environment (Arndt 1979). Since negotiation is one of the prominent mechanisms through which change and entrepreneurial development can be achieved, understanding the complete process is paramount. However, most negotiation research has exclusively focused on what transpires at the negotiation table, by-passing the crucial pre-negotiation and post-negotiation phases. One question remains untested, do negotiators across the globe view the negotiation phases with similar weight and importance?

The importance of the pre-negotiation phase has been noted by a few, but little research has been conducted. Lewicki and Litterer (1985) posited that, “preparation and planning are the most important parts of negotiation” (p. 47). Gulliver (1988), an anthropological researcher, noted that most social scientists who have examined negotiation phenomena and created theories about such behavior have myopically searched only for explanations of outcomes. Gulliver stated that by concentrating on outcomes, many factors that may significantly affect outcomes have been overlooked. Leading U.S. and international negotiation trainers declare that planning skills are the most important traits one can possess (Karrass 1970; Graham and Sano 1989).

The post-negotiation phase has been the focus of even less scrutiny. Yet in many cultures, especially China, reaching an agreement at the table is not the end of the negotiation but rather the opening of a relationship and future rounds of negotiations. Thus, the negotiated agreement provides

a framework for a business relationship, but it is the subsequent behaviors and the interpretation of the intent of the parties that will decide the actions and payments for each party.

In short, for some international negotiators, the details are worked out during the life of the agreement according to changing needs and requirements of the parties involved.

Peterson and Lucas (2001) offered an outlined to the three phases to the negotiation process (see Table 1) and offered several propositions, but not any specific empirical evidence. So while academic studies have noted that people from separate cultures demonstrate different tendencies at the negotiation table, little is known on how people prepare for negotiations or how they handle implementation of negotiated agreements. Perhaps they also have discrete approaches for preparing for and implementing deals. This introductory work has one central objective, to explore the relative importance of the pre-negotiation, active negotiation and post-negotiation phases in the minds of entrepreneurs from different parts of the world.

The paper begins with a brief overview of the three negotiation phases. Next, the method used to collect data from the two groups is outlined and followed by the results. A discussion and managerial relevance are offered along with the limitations of this exploratory study.

Pre-Negotiation	Intelligence gathering, formulation, strategy creation and preparation activities performed prior to meeting with the other party.
Active Negotiation	Actual communication and behaviors exhibited between the parties when discussing business terms.
Post-Negotiation	Implementation and disagreement resolution techniques to keep the arrangement on track.

NEGOTIATION PHASES

Pre-Negotiation Planning and Preparation

Planning and preparation is a ubiquitous human activity. In a business environment, planning is largely undertaken in an effort to: 1) reduce future uncertainty, and 2) diminish the risk of failure (Foster 1993). There are numerous definitions of planning, however, in general, most negotiation researchers may agree that plans are cognitive structures that outline actions to be taken which help to achieve one or more stated goals (Berger and Bell 1988). Planning often occurs in informal or implicit ways with individuals developing loosely connected goals and plans.

Planning and preparing for a negotiation can frequently be a difficult and arduous task, hence, sometimes negotiators retreat from this important activity. To the seasoned negotiator, it is an obvious advantage to be able to anticipate an opponent's move (or possibly a set of tactics) before it is executed, and even better to understand the plan the other side is pursuing which drives their

actions (Neale and Bazerman 1985). International negotiation plans can become highly complex when all technical, payment terms, timelines, guarantees, pricing facets, not to mention language and cultural barriers, are considered. Just as complex is a negotiator's proclivity to plan and the activities that are undertaken within this phase.

Due to finite resources, entrepreneurs must frequently ponder, "Do I spend my time planning and prepping, or can I just wing it?" There are four generally recognized reasons why business people spend time planning: 1) it builds confidence; 2) it develops an atmosphere of goodwill between the parties; 3) it embodies professionalism; and 4) it increases the chance of closing the deal (Futrell 1996). Any negotiator must decide if time and resources spent on planning and preparing for a negotiation are wise investments. Sujjan, Weitz, and Kumar (1994) argued that situational acumen develops through mental preparation, self-confidence, and the ability to make adjustments in behavior as the situation unfolds. Pre-planning was posited as the concept that best pulls these capabilities together.

Active Negotiation

Active negotiation variables address what actually takes place when parties come together for discussions. Often these active negotiation behaviors are viewed as the central determinant of the negotiated outcomes. These behaviors comprise the face-to-face interactions between the parties that lead to the eventual resolution, or perhaps, impasse. In the past twenty years, international research has focused on numerous nuances of cross-cultural bargaining encounters. Some of the findings include: Chinese negotiators ask more questions and interrupt more frequently versus Americans (Adler, Brahm, and Graham 1992); the initial stages of building rapport and understanding the status/power relations are more important for the Japanese and Brazilians than the Americans (Graham 1983); Russians use competitive negotiation tactics at the table to reach higher outcomes for themselves when compared to US negotiators (Graham, Evenko, and Rajan 1992); a problem solving approach is the best strategy for Americans, whereas Chinese prefer competitive, and Japanese buyers do better than Japanese sellers (Graham, Kim, and Robinson 1988); and compared to their Mexican counterparts, Americans are more structured, less flexible, and more direct (Husted 1994).

Thus, the active negotiation phase has been the focus of many studies and has uncovered profound differences between the varied cultures of the world. It is clear that national cultures often have certain prescribed tendencies, or accepted norms of decorum, when it comes to negotiating.

Post-Negotiation

Once a psychological agreement is made, and often committed to paper, many entrepreneurs/negotiators feel their involvement ends. When in international waters, risks and

uncertainties are such that constant monitoring is generally required. Successful implementation requires the entrepreneur to actively follow-up and build a strong relationship with Asian business vendors or partners. Often times, the post-negotiation phase is filled with cooperative tactics to execute the agreement, but competitive tactics are sometimes called upon to spur performance of promises made.

Operating in Asian markets may require Western entrepreneurs to provide more regular and frequent contact, especially if one is considered a vendor. When a problem presents itself, this continual communication may allow for a quick and trustful remedy to the situation. The importance of “guanxi” during this stage cannot be overstated (Brunner, Chen, Sun, and Zhou 1990). Guanxi is a Chinese word, similar to “on” or “giri” in Japanese, which means having or using connections to foster smooth business dealings. Instead of being considered an outsider, as an insider you are warmly embraced and a long-term moral obligation is created. In a post-negotiation setting this generally manifests itself in an ability to work through the numerous cultural road blocks that are inevitable when East and West cultures mingle. All misunderstandings are worked out based on mutual trust and a willingness to reciprocate in the spirit of friendship, plus a deep desire not to lose “face” in public. While “networks” are also prevalent in the West, the intensity and sense of obligation is often less devout. Sometimes in the U.S., the legal system is used to iron out serious differences, or at least the threat of judicial action, but entrepreneurs are generally not known for using this approach in the implementation phase.

RESEARCH METHODOLOGY

Participants

The use of entrepreneurs with several years work experience was desired to test the research question because Fouraker and Siegal (1963) suggested that student subjects may negotiate differently than business people, which certainly seems plausible when comparing students to entrepreneurs. The study was comprised of 52 small business owner/entrepreneurs (24 Chinese and 28 American). The Chinese respondents were part of an executive education program held partly in China and the U.S. They were selected for this program by their central government representatives as the “future of the region as it relates to commerce.” The American respondent sample was selected from experienced business people who were mainly small business owners or principals in their organization. All were working full time and taking graduate courses in business. On average, each person had more than 13 years of business experience, was between 35 and 44 years old, was male, and held a college degree. Many owned their respective organizations outright, others were officers of their organizations. See Table 2 for demographic details.

Table 2: Sample Demographics		
Average	United States	China
Age	35-44	35-44
Work Experience	15+ years	13-16 years
Gender	65% male	85% male
College Degree	85%	66%

Setting

A scenario methodology was used to gather data. Scenarios “help to standardize the social stimulus across respondents and at the same time make the decision-making situation more real” (Alexander and Becker 1978, p. 103). The negotiation situation described the general role the respondents were to play leading to the intended negotiation. The scenario used was a modified version of Graham’s (1984b) Bolter Simulation. The Bolter Simulation entails the buying or selling of equipment for the purposes of extracting natural gas. There are a range of issues that a negotiator would need to prepare to discuss including purchase price, delivery terms, payment terms, and service guarantees. Other researchers have used the Bolter scenario and found it robust and complex enough to connote a real world experience (Alexander 1988; Alexander, Schul, and Babukus 1991; Westbrook 1997).

Data Collection Instruments

Each negotiator was given role specifications and materials outlining the upcoming negotiation with the client. The negotiator was asked to divide his/her time among the three stages of the negotiation process: 1) pre-negotiation (includes data gathering, formulation, strategy, and preparation), 2) negotiation (includes actual face-to-face interaction with each other), and 3) post-negotiation (includes implementation and follow-up issues). The activity scale used a constant sum method process, an established marketing research tool (Malhotra 1993). For this study, a constant sum scale was used, whereby respondents divided 100 points among the pre-negotiation planning and preparation activities to reflect the amount of relative importance and value each activity held. After this baseline was established, each individual either received a scenario that led them to believe that they would be encountering a highly competitive or a highly collaborative opposing team. Finally, the individual was asked to divide 500 points amongst the pre-negotiation, active negotiation and post-negotiation phases.

The measurement instrument used was a self-administered questionnaire in English and Chinese. To ensure accuracy and generalizability of the instructions and survey items, a translation-back translation technique was employed (Bhalla and Lin 1987; Douglas and Craig 1983). Two

bilingual speakers participated in the translation/back translation process and when discrepancies were noted a discussion ensued to clarify the intent of the words chosen. When the Chinese respondents were completing the survey one native speaker was in the room at all times to answer any questions that arose.

FINDING/DISCUSSION

Results & Implications

The results from the ANOVA omnibus test indicate that entrepreneurs from the U.S. and China view the process of negotiation very similarly (see Table 3). There were no significant statistical differences when comparing the two groups on resource allocation to the three phases.

	Sum of Squares	Df	Mean Squares	F	Sig.
Pre-Negotiation	1277.030	3	425.677	.104	.957
	200654.10	49	4094.982		
	201931.13	52			
Active Negotiation	11693.950	3	3897.983	1.488	.229
	128323.97	49	2618.857		
	140017.92	52			
Post Negotiation	14881.168	3	4960.389	1.693	.181
	143548.08	49	2929.553		
	158429.25	52			

This introductory work had one central objective; investigate the relative importance of the pre-negotiation, active negotiation and post-negotiation phases from a U.S. - China perspective. An attempt was made to empirically measure the importance attached to each phase using a constant sum approach. In fact, no differences were evident when comparing US and Chinese negotiators across the three negotiation phases. These results may appear somewhat surprising given there is much written about the differences between cultures when it comes to a propensity to plan, (uncertainly avoidance), the negotiation table (the use of divergent strategies and tactics), and relationship management (varying methods for handling implementation issues). However, most research has centered only on corporate managers and not entrepreneurs.

Numerous implications exist related to these findings, but perhaps the following two are the most telling. First, from a process perspective, U.S. and Chinese entrepreneurs devote resources to each phase comparably. Thus, the notion that Americans don't plan and Asians always over prepare

was not observed, at least not when compared to the Chinese entrepreneurs. One stereotype of Westerners, especially Americans, is that they are exceptionally shortsighted and often believe they can just “wing it” John Wayne style. There is little need to prepare for a negotiation because if you find yourself in a sticky situation, you should be able to talk your way out of it. Yet, this was not observed.

The Chinese and Americans placed as much value on the pre-negotiation phase, so we might infer that their ability to; 1) gather intelligence (collect, process and analyze data), 2) formulate positions (set goals and limits on issues), 3) strategize (develop tactics to support goal attainment), and 4) prepare (rehearse arguments and create support materials) would be similar. That is not to say they would prepare in the same fashion: it means they would have comparable time and resources earmarked to this phase.

Second, when confronted with a highly competitive or collaborative circumstance, again the Chinese and Americans appear to allocate resources alike. Thus, it appears that negotiators from two distinct regions of the world tend to view the process similarly, yet implementation of their actions is still uniquely different. While the goal and desired outcomes are somewhat analogous from an entrepreneurial perspective, research focusing on the table exchanges yields sometimes divergent behaviors when attempting to reach the stated objective.

It appears the impact of cultural influence may not be as strong when compared to the international entrepreneurial mindset. One might have expected the Chinese to spend more time planning and preparing compared to the Americans, not true. One may have thought that the “at the table” repartee would be more important to the Americans with their verbal shrewdness; the Chinese felt the same importance. The ability to implement the post-negotiation agreements was again assigned a similar level of resources. Thus, for how different the two cultural pulls are, these entrepreneurs viewed the negotiation process as equivalent.

Drawing resolute and definitive conclusions from this work is not yet possible, only because like the sample set studied, the entrepreneurial nature of this research has few others with which to compare its results. This research is exploratory in nature, with no forerunners blazing trails. Thus, while these findings are beneficial, additional information focusing on this rare group of people would yield valuable knowledge.

Future Research

In some respects, exploratory studies create even more questions than they answer. One constant question of international research is do these findings hold true across various other cultures? More specifically, what do American and Chinese entrepreneurs do when they prepare for a negotiation encounter? Which aspects of preparation get cut when pressed for time? Are certain aspects of planning preparation always conducted? Which ones? Additionally, what effect do situational factors have on the negotiation process? For example, how does prior behavior of the

parties, trust, degree of power symmetry, buyer-seller role, location, time constraints, and the competitive or collaborative nature of the encounter affect the resource allocation in the negotiation process?

While most research has focused on the active negotiation stage, few studies have used entrepreneurs as the response group. Perhaps entrepreneurs are no different during the negotiation process than Fortune 500 managers, but enough resources have been earmarked for studies of how successful entrepreneurs are “different” from other people that this may be worthy of scrutiny.

After the negotiation process concludes, with a written or unwritten agreement, how do separate cultures go about ensuring performance of the understanding? What method of communication is needed to keep the deal moving ahead? When and how does the entrepreneur need to re-introduce himself/herself into the picture to iron out details gone awry. When and how is force asserted given the particular culture? The process of negotiation is a unique human experience, but there must be commonalities in the process that hold across cultures. However, but with the target group being entrepreneurs, the patterns may become more fleeting.

Limitations

The sample size in this study is certainly limited; however, it is extremely difficult to gather this data since China has few formalized organizations for entrepreneurial gatherings. The Chinese were not overly familiar with survey instruments and had numerous questions about the data collection process. While nothing was really a concern here, the Americans were most familiar with what was being requested of them. Lastly, China is a vast country filled with numerous sub-cultures and patterns of life; to a certain degree, the same could be said of the U.S. sample. However, the Chinese sample should be viewed as pioneers, even within an entrepreneur segment, because they were one of the first groups from their region to visit the United States and undertake formal Western style advanced education seminars.

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AN EMPIRICAL ANALYSIS OF ENTREPRENEURIAL OPPORTUNITY IDENTIFICATION AND THEIR DECISIVE FACTORS: THE CASE OF NEW SPANISH FIRMS

Justo de Jorge Moreno, University of Alcala

ABSTRACT

The main objective of the analysis used in this work is to classify the entrepreneur's business opportunities and determine the factors that could explain them. This work offers two relative novel aspects to take care: i) the consideration of the business opportunity and the factors that explain it as a relevant element for analysis, and so perhaps fill the gap that exists in the empirical literature and, ii) the global analysis carried out where the characteristics of the entrepreneurship, the company and their environment are considered. The results obtained show that the business opportunity identified and exploited by an entrepreneur depends initially on his work experience, his previous experience in activities related to the present business activity and his level of education.

Keywords: Entrepreneurship motivation, opportunity identification and development, human capital, experience

INTRODUCTION

Researchers have shown that the willingness of people to pursue entrepreneurial opportunities depends on such things as opportunity cost (Amit, Mueller, & Cockburn 1995), stocks of financial capital (Evans & Leighon, 1989), social ties to investors (Aldrich & Zimmer, 1986), career experience (Carroll & Mosakowski, 1987), and motivational differences (Shane, Locke, & Collins, 2003). The identification of opportunities has been recognized as one of the most important abilities of successful entrepreneurs (Ardichvili, Cardozo, & Ray, 2003) and consequently has become an important element in the scholarly study of entrepreneurship. Not surprisingly there has been considerable interest in why, when, and how some people are able to identify opportunities, while others cannot or do not (Shane & Venkataraman, 2000). For an interesting and more complete review see (Shepherd & DeTienne, 2005).

According to Shane, Locke, and Collins (2003: 259), in order to isolate the effects of entrepreneurial motivation, other factors that could have a causal effect on the process and outcome of entrepreneurship need to be controlled.

In this respect, some of the most representative authors such as, Ottati (1994), Markusen (1996), Rabellotti (1998), (Lawson & Lorenz, 1999), Thomas (2000), or (Beugelsdijk & Noorderhaven, 2004), have incorporated into this area of knowledge aspects such as, the influence of innovation systems, entrepreneurial capacity and business culture, with the aim of evaluating whether these specific factors of the entrepreneurial phenomenon can be associated with regional and sectoral development. Glaeser, Kallal, Scheinkman, and Schleifer (1992) and Henderson, Kundoro, & Turner (1995) propose introducing the distinction between inter- or intra-industry effects.

Shane, Locke, and Collins, (2003: 259) argue that while it is clear that the above factors need to be controlled if we are to fully understand how motivation is related to entrepreneurship, it is less clear how opportunities affect this relationship. Ardichvili, Cardozo, and Ray (2003) build on existing theoretical and empirical studies in the area of entrepreneurial opportunity identification and development, and utilize Dubin's (1978) theory building framework to propose a theory for the opportunity identification process.

Within this context, the objective of this current work is to explore the factors that influence the analysis of the entrepreneur's identification and development of an opportunity, incorporating an endogenous approach in which we attempt to evaluate the entrepreneur's profile (according to a typology elaborated on the basis of their personal characteristics and the way they manage the firm's resources), without ignoring other exogenous factors relating to the region or sector that have already been considered in the literature mentioned above.

With this objective in mind, our article is organised as follows: in the next section we develop the proposed theoretical framework for studying the factors that potentially condition the analysis of entrepreneurial opportunity identification and development. In section 3 we present the methodology and the description of the variables. In particular how opportunity is classified and the factors considered as explanatory are approached. In section 4 we present the main empirical results obtained. Section 5 includes a summary of the main conclusions and extensions.

THEORETICAL FRAMEWORK: MODEL AND HYPOTHESES

In this section the concept of identified opportunity is approached and developed from some of the viewpoints contemplated in the literature. In this sense, it is possible to identify business opportunities based on three points; a) the identification of opportunities as creative retrospection (Long & McMullan, 1984) b) the identification of opportunities as a motivated search (Herron & Sapienza, 1992; Kang & Uhlenbruck, 2006) and c) the identification of opportunities as alert management (Kirzner, 1985, 1979).

For Long and McMullan (1984), the identification of opportunities is a process that takes place over time rather than as a simple inspirational process, it assumes a process of creative retrospection. The identification of opportunities being the result of one's position of personal power, which depends on social, cultural and technological aspects together with the perception of a particular market opportunity (vision). The vision may be a good idea for a future project and a managerial project is then needed to exploit it. In this sense the opportunity has been identified, and the outstanding question is one of materializing it.

Psychologists who analyse the creation process suggest that, at least two types of creativity are necessary to conceptualise the process of identification of opportunities: the discovery and the resolution (Stevenson, Roberts & Grousbeck, 1994). From the empirical point of view, Long and McMullan (1984), find that analysed founders of companies view their businesses as a development of their intuition. They observe that the knowledge derived from education or work has a bigger influence when creating a business than the degree of innovation of the opportunity. In this sense, the knowledge acquired from experience or education and even information are important factors in the creation of companies.

In the works of Vesper (1980) or Koller (1988) most of the founders attribute their initial idea for the business to luck, though work experience is also present. The systematic search for opportunities is linked to those managers looking to be self employed, whilst those managers that had not thought of self employment are more likely to have discovered a business opportunity by chance.

The second focus, related to the identification of opportunities as a motivated search, is included in the work of Herron and Sapienza (1992), who argue that a person who is sufficiently motivated will undertake a search of business opportunities. This motivation will increase as the level of dissatisfaction felt by the person grows.

Finally the third focus, looks at the position of Kirzner (1979, 1985) on the identification of opportunities. The central idea is that a person who is alert will, under certain circumstances, be able to identify business opportunities. Few people have the ability to identify business opportunities that have not been discovered by others without the need for a prior systematic search. For this author, it is not a matter of managers generating innovative ideas, but of somebody being alert to opportunities that already exist and waiting to be discovered. From this point of view, being a manager depends on two components: the ability to detect opportunities and gain possibility, not only in a monetary sense, but in a motivational one as well.

Opportunities and Entrepreneurship

Following Casson (1982), and Shane (2000), we have defined entrepreneurial opportunities as situations in which new goods, raw materials, markets and organizational methods can be introduced through the formation of new means, ends, or means-ends relationships. In this study,

we adopt Shane's (2000: 218) definition of entrepreneurship as the process by which "opportunities for creating future goods and services are discovered, evaluated and exploited.

In this context, Eckhardt and Shane (2003), believe that the earlier literature offers three ways of categorizing opportunities: by focusing on the changes that generate the opportunity, by the source of the opportunities themselves, and by the initiator of the change.

Shane, Locke, and Collins (2003) present two versions of the relationship between opportunities and entrepreneurship motivation:

- Shane and Collin's version. Opportunities are aspects of the environment that represent potentialities for profit making. "Since potentialities are not yet actual, measuring them objectively and prospectively at the level of an individual entrepreneur poses daunting challenges".
- Locke's version. Opportunities are aspects of the environment viewed from a certain perspective. "Since potentialities are not yet actual, we would argue that they could not be measured except in the negative sense, that is, as terms of metaphysical limitations or upper limits".

The theoretical framework offered by Shane et al. (2003), is particularly interesting as a means of explaining the discovery and development of opportunities, based on different assumptions borrowed from a range of disciplines (ranging from Australian Economics to Cognitive Psychology). In this sense Sarason et al. (2006) offers an interesting theoretical point of view treating the entrepreneur and the entrepreneurial opportunity as a duality enriches entrepreneurial theory and provides insights into the nature of the phenomenon and the research methodologies that might be most appropriate for illuminating its character.

Model

Over the last few years, numerous models of opportunity recognition and development have been presented (Bhave, 1994; Schwart & Teach, 1999; Singh, Hills & Lumpkin, 1999; De Koning, 1999; Sigrist, 1999).

These attempts, argues Ardichvili et al, (2003: 107) have contributed greatly to our understanding of opportunity identification, though they fall short of offering a comprehensive understanding of the process.

In the Ardichvili-Cardozo-Ray model, major factors that influence the core process of opportunity recognition and development leading to business formation include:

-
- Entrepreneurial alertness. Ray et al. (1996) argue that any recognition of opportunity by a prospective entrepreneur is preceded by a state of heightened alertness to information.
 - Information asymmetry and prior knowledge. Von Hippel (1994) argues that people tend to notice information that is related to information they already know. Therefore, Shane (1999) postulated that entrepreneurs will discover opportunities because prior knowledge triggers recognition of the value of the new information.
 - Social networks. Granovetter (1973) argues that weak ties are “bridges” to information sources not necessarily contained within an individual’s strong-tie network. In this context (Hills et al., 1997) indicate that an entrepreneur’s networks are important to opportunity recognition.
 - Personality traits. According to some cognitive studies have focused on the personality traits of entrepreneurs and their contribution to the success of entrepreneurial ventures.
 - Type of opportunity itself. (Ardichvili et al., 2003) believe that the process of opportunity development may differ between four types of “opportunities” Dreams, Problem Solving, Technology Transfer and Business Formation. They will be analysed in the following section.

After analysing the literature, figure 1 presents the pattern for the identified opportunity. The type of opportunity begins when the entrepreneur has an above-threshold level of entrepreneurial alertness. The level of entrepreneurial alertness is likely to be heightened when several factors coincide: certain personality traits associated with the motivation factors that have prompted the entrepreneurs to create their firms are vital determining factors of this alertness; as are the domains of knowledge: specific knowledge of the activity, that is to say, previous experience in the activity exists prior to the creation of the company, managerial experience in the activity or formal education. The nature of social networks and environment also determine the level of entrepreneurial alertness. Finally, the type of opportunity plays an important role in understanding the process.

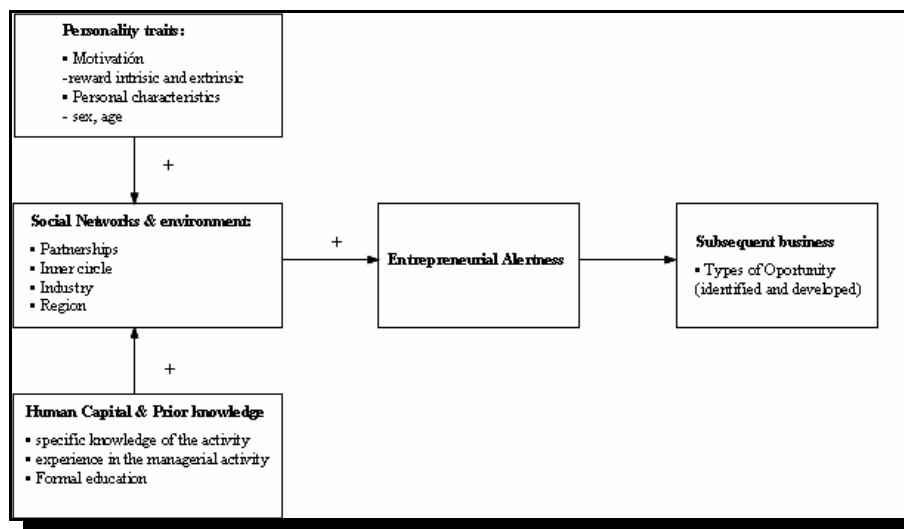
As indicated by Ardichvili et al. (2003), the development process may differ between individuals or entrepreneurial teams. Some individuals excel at invention; others, at creating business models and a rare few excel at both.

All that has been expounded so far helps us to consider the following hypothesis group from the opportunity identification model:

H1a: The type of identified and developed opportunity varies in accordance with prior knowledge and formal education:

- H1b: Higher levels of prior knowledge and formal education are associated with the identification of more innovative opportunities.*
- H2: The type of identified and developed opportunity varies in accordance with personality traits in terms of motivating factors.*
- H3: Different types of firms exist depending on business opportunities. These differences are associated with organizational variables; the age of the company, the number of partners there are, start up capital and the formalization of a business plan that allows the activity to be planned.*
- H4: The type of identified and developed opportunity varies in accordance with social networks and environment. That is to say, important links exist between the type of identified opportunity and the sector and region or area in which the company is located.*

Figure 1
The opportunity identification and development theory model.



METHODOLOGY

At the theoretical level the concept of entrepreneurial opportunity identification and development has been approached from various disciplines. Similarly, its empirical treatment has been approached using different methods, ranging from Dubins's methodology, as in the work of

Ardichvili et al. (2003), to the use of questionnaires to analyse the entrepreneur's behaviour (e.g. Curran et al., 2001, Smallbone et al., 2002).

In short, to contrast the hypotheses a model of discreet election, *logit multinomial* has been used.

$$Y = \alpha + \beta' X + \epsilon \quad [1]$$

where Y^* is an unobservable index; α the independent term; β the vector of coefficients associated with the independent variables (defined later); and ϵ the random disturbance term. The observations are limited to assigning each firm to a category on the interval scale (1 to 4), so that each category corresponds to a specific rank of Y^* . Thus, we have $Y = 1$ if $Y^* < 1$; $Y = 2$ if $1 < Y^* < \mu_1$; $Y = 3$ if $\mu_1 < Y^* < \mu_2$; $Y = 4$ if $\mu_2 < Y^*$, where the μ_i are unknown parameters that determine the boundary values of each rank.

To estimate the coefficients one of the identified opportunities, which is considered as omitted, is used as a normalization (reference alternative) value. In this way, the parameters of the other alternatives should be interpreted in reference to the omitted category. The statistical pattern to estimate would be the following.

$$Pr_{j=1..4}(\text{Opportunity}) = f(\text{personality traits, Social networks and environment, Prior knowledge})$$

Data

The data used in this investigation were obtained by means of a survey carried out in the year 2004 on a total of 701 firms located in the city of Madrid (Spain). Table 1 shows the main characteristics of the study.

The questionnaire used, gathered information about the entrepreneurship's characteristics, of the business project, the research and development activity, the factors leading to success and problems found in the creation of the company, and the valuation of entrepreneurship spirit. The questionnaire as well as the process of data collection process has been extracted from De Jorge et al. (2005)".

Table 1: Technical specifications of the study	
Universe	Firms created in Madrid starting from 1998. This universe contained a total of 54.283 firms.
Environment	The city of Madrid (21 districts).
Methodology	Quantitative study, using a structured questionnaire and collecting the information by telephone contact with informants in the companies.
Unit sample	Entrepreneurship or person for this designated.

Table 1: Technical specifications of the study	
Design sample	Aleatory stratified sampling, using as stratification approaches the geographical variable location of the company (municipal district), main activity of the company and size, in function of the number of employees.
Size sample	701 interviews.
Fieldwork	from May to June of 2004

Simple error

For the global data the error is of +3.75%, calculated in the case of possible ($p=q=50$) bigger uncertainty, to 95,5% of trust and taking as universe the 54.283 companies contained in the City council of Madrid's company directory database

Measures

Dependent variable

According to Getzels (1962), and Ardichvili et al. (2003), we believe that the process of opportunity development differs between four types of "opportunities" defined by the matrix in Figure 2.

Figure 2.- Types of opportunity			
		VALUE SOUGHT	
		Unidentified	Identified
VALUE CREATION CAPABILITY	Undefined	"Dreams" I	Problem Solving IV
	Defined	Technology Transfer II	Business Formation III

This matrix, differentiates between "opportunities" based on their origin and degree of development. The value sought may be identified (known) or unidentified (unknown), and value creation capability may be defined or undefined.

I) Dreams: represent the kind of creativity we associate with artists, some designers, and inventors who are interested in moving proprietary knowledge in a new direction or pushing technology past its current limits. (Problems and solutions both unknown)

II) Technology

Transfer: opportunity development here emphasizes search for applications more than product/service development. (Problems are unknown but solutions are available)

III) Business

Formation: opportunity development involves matching known resources and needs to form businesses that can create and deliver value. (Both problems and solutions are known)

IV) Problem

Solving: the aim of opportunity development in this situation is usually the design of a specific product/service to address an expressed market need. (Problems are known but solutions are not)

To obtain the necessary information on the opportunity identified by the entrepreneurs. The entrepreneurs were asked about the business idea behind the creation of their company or managerial project. The answers given by them and their classification of the proposed opportunities can be seen in table 2:

On which of the following ideas was their managerial project based?	Dreams	Technology Transfer	Business Formation	Problem Solving
An invention	x			
Observation of new necessities				x
Appearance of a technological advance(process)	x			
To carry out an existing idea in another country, region, etc.		x		
Possibility of improving a product or service		x		
An idea based on experience (in own business or as employee)			x	
Others (specify)			x ^a	x ^b
x ^a = relationship with family tradition;				
x ^b = relationship with knowledge of the sector, relationship with an idea that is applicable to my knowledge				

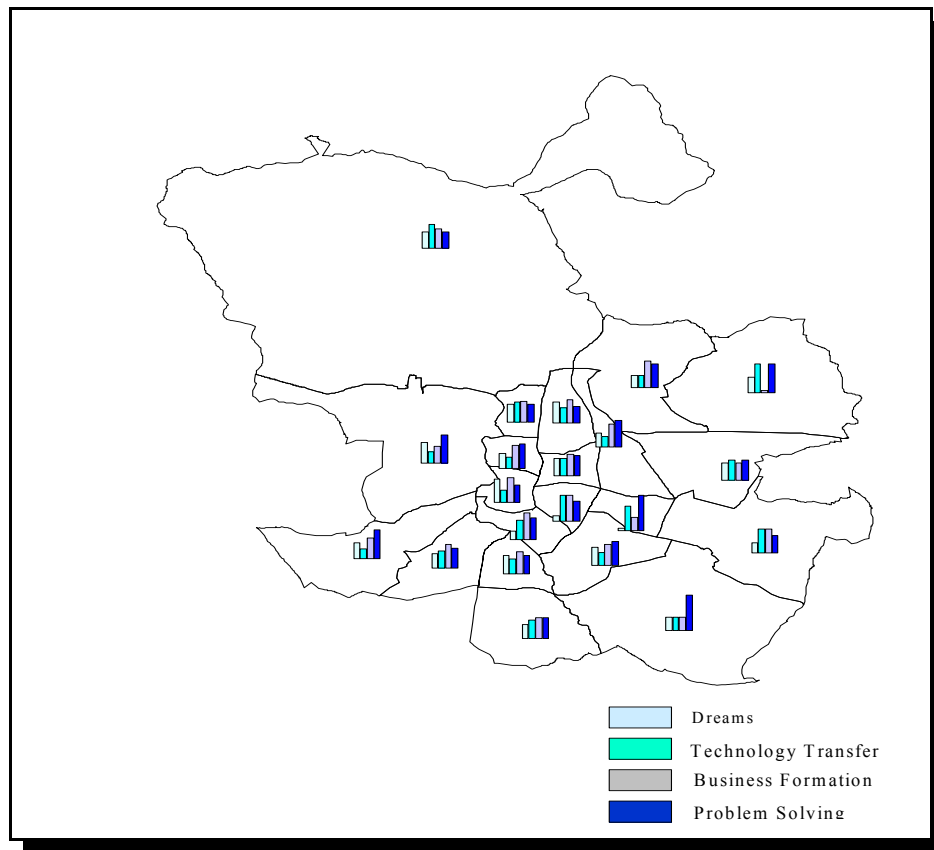
Figure 3 shows the distribution by districts or areas of the different types of the analysed entrepreneurship opportunities. As can be appreciated, the four different business opportunities are present in all the districts of the City of Madrid.

Independent variables

As mentioned previously, the independent variables of the pattern have been placed in three categories

1. **Personality traits:** From motivation theories we know that people act to satisfy their needs and that before undertaking any action they consider what the remunerations or compensations will be.

Figure 3
Distribution by district of the entrepreneurs business opportunity.



From the previous reasoning we are justified in using reward as an important influence on behaviour, and ultimately for classifying entrepreneurs in accordance with the type that of reward that guides their behaviour.

According to Deci, (1975), Cameron and Pierce (1994), and Tang and Hall (1995), a distinction can be made between intrinsic rewards, those that individuals receive for themselves, (in great measure the result of the person's satisfaction with their work) and extrinsic reward which includes direct and indirect compensation, and non economic bonuses.

Within this context, in order to analyse the motivations of entrepreneurs in the Municipality of Madrid, they were asked to rate the degree of importance the different rewards, which the literature considers as more outstanding,¹ had for them. The possible answers were placed in two groups, in the main following the approach used by Deci (1975). Table 3 shows the entrepreneurship motivation variables used by Patchell (1991) and a contrast of mean values for a sample of companies that were also analysed using entrepreneurship motivation variables, at a national level in Spain. (De Jorge, Garcia, & Pablo, 2004).

The objective was to evaluate whether the variables chosen to analyse the aspects that characterize entrepreneurship motivation in the city of Madrid differ from those in the rest of Spain²

As can be observed, the variables belonging to the group of extrinsic motivations present significant differences between the two samples, warning us of the need to be cautious when extrapolating the results obtained for the venturesome of the city of Madrid to the rest of Spain. (Something similar happens with intrinsic rewards, with the exception of motivations related to “Desire to do work of one’s own interest”, Achieve self realization”, “Desire to be master of one’s own business”, and “To achieve social recognition”).

Later a factorial analysis of the main components³ was carried out following the methodology used by Hair et al. (1999). As shown in table 4, the factor analysis allowed us to move from 15 items to 6 factors⁴. This analysis accounted for a total of over 62% of the variance, and the rotation required nine iterations to converge. The six factors produced showed truly remarkable similarity to the theoretical dimensions- perhaps only localization items were out of place.

Table 3- Differences in mean variables of entrepreneurship motivation, mean values and contrasts			
	Madrid firms mean (n=701)	Spain firms mean (n=458)	P-value¹
Intrinsic reward			
Desire to do work of one’s own interest	4.28	4.35	0.272
Desire to give priority to family	4.52	4.01	0.000
Achieve self-realization	4.40	4.36	0.464
Free to adapt my approach to work	4.45	4.09	0.000

	Madrid firms mean (n=701)	Spain firms mean (n=458)	P-value¹
Desire to contribute to society	3.99	3.83	0.010
Desire to be master of one's own business	4.13	4.10	0.654
Desire to take on management challenge	4.20	3.97	0.000
Desire to exhibit one's abilities at work	3.56	3.22	0.000
To achieve social recognition	3.45	3.33	0.141
Extrinsic reward			
Gain greater flexibility for personal life	4.32	3.44	0.000
Desire to work in town of one's choice	4.23	3.63	0.000
Desire to earn a decent living	4.33	4.13	0.000
Earn a larger personal income	3.87	3.53	0.000
Desire to earn amount of money commensurate with effort	4.37	4.18	0.000

¹Note: significance levels *p<0.10, **p<0.05, ***p<0.01

Factor:	1	2	3	4	5	6
	<i>Financial success</i>	<i>Independence</i>	<i>Recognition</i>	<i>Self-realization</i>	<i>Quality of life</i>	<i>Localisation</i>
Intrinsic reward						
Desire to do work of one's own interest		0.864				
Desire to give priority to family					0.744	
Achieve self-realization				0.787		
Free to adapt my approach to work		0.531				
For professional success						
Desire to contribute to society				0.686		
Desire to be master of one's own business		0.684				
Desire to take on management challenge				0.514		
Desire to exhibit one's abilities at work			0.836			

Table 4: Factor loading for motivation items ^a: Varimax rotation

Factor:	1	2	3	4	5	6
	<i>Financial success</i>	<i>Independence</i>	<i>Recognition</i>	<i>Self-realization</i>	<i>Quality of life</i>	<i>Localisation</i>
To achieve social recognition			0.780			
Extrinsic reward						
Get greater flexibility for personal life					0.760	
Desire to work in town of one's choice						0.948
Desire to earn a decent living	0.800					
Earn a larger personal income	0.752					
Desire to earn amount of money commensurate with effort	0.682					
Eigenvalue	3.50	1.44	1.29	1.22	0.95	0.90
Percentage variant accounted for:	23.35	9.60	8.63	8.17	6.33	6.02
Accumulate percentage variance	23.51	32.95	41.59	49.76	56.09	62.12

^a Factor loading smaller than .50 have been suppressed

The interpretation of each factor that we carry out next, has taken as a reference the classification chosen by Deci (1975) and Deci and Ryan (1985) to categorize the different types of benefits that people usually consider when becoming part of a group to achieve particular objectives. A review of the literature has also been used for the itemized identification of the extracted factors. In this context, see Carter, Gartner, Shaver and Gatewood (2003) where an interesting review of this topic is made.

The first factor, which accounts for 25% of the variance, presents a high positive association with the items "Desire to earn a decent living," "Earn a larger personal income" and "Desire to earn amount of money commensurate with effort." Thus, this factor is associated with money motivations, so it can be labelled *Financial success*.

The second factor is mainly related to the items "Desire to do work of one's own interest" with a saturation level of 0.86, being supplemented with "Desire to be master of one's own business" and "Free to adapt my approach to work." This factor includes the autonomy or independence that managerial activity implies, so it can be labelled *Independence*.

The third factor has a high association with the variables related to personal satisfaction. In short with "Desire to exhibit one's abilities at work" and "To achieve social recognition" and to a smaller degree with "Desire to take on management challenge." The name assigned to this factor is *Recognition*.

The fourth factor is related to the items "Achieve self-realization" and "Desire to contribute to society." This dimension is therefore associated with the idea that people fight for personal realization, they are accepted by themselves and others and as a result increase their problems solving ability. The name assigned to this factor is *Self-realization*.

Factor five includes the items "Obtain greater flexibility in ones personal life" and "Desire to give priority to family." This factor suggests the importance of free time and the problems of coordinating professional and family life. Thus, it can be labelled *Quality of life*.

The sixth and final factor is only related to the choice of location. Its saturation level is very high 0,948. The interpretation of this factor seems to be related to the importance that the location of the establishment and the family residence have for the managers that were interviewed. Which could be related to their business and family home being in close proximity. On the other hand, the choice of the City of Madrid could be related to the importance of the location to the managerial activity (only 18% of the entrepreneurs interviewed had considered alternative locations). The location factors were valued more highly by managers within the context of agglomeration of economies they chose "Proximity of the clients" and current and future "Accessibility to the establishment." Thus, it can be labelled "*Localization*"

With the aim of linking the motivating factors to the entrepreneurs, the sample was divided into groups depending on the factors they considered to be the most relevant when it came to motivation. The method chosen for the analysis was agglomerative hierarchical clustering, as it does not cause overlapping between clusters and is considered the predominant method by Chenhall and Langfield-Smith (1998). The technique employed was the Ward algorithm, widely used in the literature (Everit, 1993), with the Euclidean distance metric chosen to measure the proximity between two cases so we could analyse the groups. The cluster number was determined by analysing the dendrogram and the mahalanobis distance values. Authors such as Meyer (1991), Thomas and Venkatraman (1998) and Korunka, Frank, Lueger and Mugler (2003) have used this method.

After the clusters were obtained, a discriminant analysis was applied to determine the percentage of correctly identified cases, with a classification level of 89.7%. Finally, as shown in table 5, the analysis (ANOVA) was used to check the differences between the groups.

	Mean differences					Analysis of the variance	
	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Coef-F	P_Value
<i>Financial success</i>	-1.13	0.04	0.31	0.22	0.25	73.44	0.0000
<i>Independence</i>	-0.02	-0.43	0.47	-1.67	0.42	179.52	0.0000
<i>Recognition</i>	0.17	-0.41	0.30	0.24	-1.22	61.80	0.0000
<i>Self-realization</i>	0.19	-0.06	0.18	-0.19	-0.68	16.28	0.0000
<i>Quality of life</i>	-0.59	-0.14	0.01	0.39	0.55	25.05	0.0000
<i>Localization</i>	0.29	-1.97	0.08	0.53	0.48	192.4	0.0000

Turning to the classification of the different entrepreneurial theories used in the literature, the interpretation is the following:

- 1) ***Cluster 1: Entrepreneurship leadership (vocational).*** (Bennis & Schein, 1965) introduce the concept of the entrepreneur as visionary, motivated and in charge of uniting the group, being creative and looking for new openings, and developing an entrepreneurial culture within which objectives can be attained. These vocational managers belong negatively to the groups in which the most relevant factors are those identified as Financial success and Quality of life. They are related positively to those factors concerned with the choice of location, and the need to achieve self realisation. This group can therefore be identified as one that is not motivated by money and is aware that the running of a business requires dedication and continuous effort. This group consists of 128 businessmen (18.26%).
- 2) ***Cluster 2: Entrepreneurship risk (not well established).*** Knight (1921) introduces the concept of the manager as the figure that assumes the economic risks, anticipating the national product, creating and ensuring income, the company profit being the reward for that risk. This group of “unestablished” managers are negatively related to the *Localization* factor. As such, they are managers for whom the location of the business is not important, and who are either more interested in possible opportunities for the business or are forced by the activity of the business to locate in a certain area. To sum up, location is not a relevant factor. This group consists of 79 managers (11.27%).
- 3) ***Cluster 3: Entrepreneurship agents (typical).*** Cantillon (1730) and Say (1830), introduce the concept of manager as agent or businessman who buys the means of production at a certain price, which he then combines in a product that he later sells at an unfixed price depending on his cost commitments. This group of “typical” managers is positively linked to the *Financial success, Independence and Self-realization* factors. As such we can identify them as “standard” managers. This group consists of 317 entrepreneurs (45.22%), the largest group in the sample.
- 4) ***Cluster 4: Entrepreneurship by necessity.*** (Galbraith, 1967), introduces the concept of manager as the leadership function, normally consisting of expert decision makers. This group of managers by necessity or obligation is, in the

main, negatively linked to the *Independence* factor and to a lesser degree, positively linked to the *Quality of life* and *Localization* factors. It is a group that does not place a great deal of importance on independence or working for them selves. They do however; consider quality of life and location to be important. This group consists of 90 entrepreneurs (12.84%).

- 5) **Cluster 5: Aseptic Entrepreneurship.** This group of “aseptic” managers is negatively linked to the *Recognition* factor (with a strong saturation level of -1.22). To a lesser extent they also negatively saturate the *Self-realization* factor. Finally, they are linked to the *Quality of life* factor to the same degree as to the *Self-realization* factor, but in a positive sense. This group has been named the aseptic group as they seek neither autonomy nor self-realization. Nor for that matter are they particularly linked to quality of life factors. It consists of 87 entrepreneurs (12.41%).

2. Prior knowledge: Entrepreneurial characteristics:

The characteristics of the entrepreneur have been analysed using variables related to gender, age and experience.

The entrepreneur’s human resource has been classified in “theory,” measured by variables that evaluate professional training, practical studies, university, degree and post graduate studies and complemented by evaluating variables that take into account any previous business experience or experience in the business in question.

3. Social networks and environment

The environment control variables included in the model have been grouped into three categories.

- 1) Firm effect.

The firm effect has been controlled by variables related to its size (measured by the number of employees), the number of partners and its resources.

2) Sector effect.

The sector has been controlled by means of a dummy variable that incorporates six sectors of activity (the industrial sector, commerce and hotel and catering, financial institutions, health and education services, construction and energy services, transport and water).

3) Region effect.

In order to include the region effect in a survey of this size, the 21 municipal districts of Madrid have been grouped together. To achieve this hierarchical cluster has been applied (the Ward method) to the variables: population density, income level and unemployment rate for each district based on available information. Once the groups had been identified a new variable was created that allowed us to determine the localization effect. Using the results obtained from the hierarchical cluster, 3 regions have been selected.

- a) Region 1: The centre, Latina, Carabanchel, Usera, P. de Vallecas, Villaverde, Villa de Vallecas, Vicalvaro and San Blas. This region is defined as having an average population density, low disposable income level and a high unemployment rate.
- b) Región 2: Arganzuela, Retiro, Salamanca, Tetuán, Chamberí, Moratalaz, Ciudad Lineal. This region is defined as having the highest population density, below average unemployment rate, close to group 3 and an average disposable income level also closer to group 3 than to 1.
- c) Región 3: Chamartín, Fuencarral, Moncloa, Hortaleza, Barajas. This region has the lowest population density, highest disposable income level and lowest unemployment rate.

To sum up, group 3 presents the best socio-economic characteristics whilst group 1 the worst.

Table 6 summarises the explanatory variables used in the analysis and provides basic descriptive statistics for each one (jointly and for each of the identified opportunities).

Twenty-one (21) percent of the opportunities identified are Dreams (D), 20 percent Technology Transfer (TT), 30 percent Business Formation (BF) and the remaining 29 percent are Problem Solving (PS). The older managers with an average age of 37 are related to (BF), whilst the younger ones with an average age of 33 are linked to (TT and D). In all the opportunities identified more than 60% are men, rising to 70% in (TT). The entrepreneurs with most experience are to be found in (TT) with an average of 7 years as opposed to 3 for those in (D). However, the number of entrepreneurs that create a business with some relation to their previous work experience is greatest

amongst those in (BF) at 54 percent in contrast to those in (D) at 30 percent. The highest education level amongst the entrepreneurs corresponds to the opportunity identified as (D) with 56% having a university degree and 0.9% with post graduate studies in contrast to (BF) with 33% having a university degree and 0.5% with post graduate studies.

Table 6.- Specifications of the analysed sample by opportunities and global										
Variables	Dreams (D)		Technology Transfer (TT)		Business Formation (BF)		Problem Solving (PS)		Total	
	mean	s.t	mean	s.t	mean	s.t	mean	s.t	mean	s.t
Entrepreneur										
Age	33.85	(9.85)	32.93	(9.66)	36.83	(10.32)	35.96	(9.09)	35.16	(9.84)
Gender (1 if male; 0 if female)	0.64	(0.47)	0.70	(0.46)	0.62	(0.48)	0.62	(0.48)	0.64	(0.47)
Experience	3.34	(5.27)	7.10	(9.73)	4.84	(8.38)	4.44	(7.34)	4.85	(7.85)
Relationship experience ¹	0.30	(0.46)	0.38	(0.48)	0.54	(0.59)	0.41	(0.49)	0.43	(0.49)
Education degree: (1 if degree #; 0 otherwise)										
i) elemental	0.24	(0.43)	0.35	(0.47)	0.45	(0.49)	0.36	(0.48)	0.36	(0.48)
ii) professional formation	0.10	(0.31)	0.11	(0.32)	0.15	(0.36)	0.12	(0.33)	0.12	(0.33)
iii) university degree	0.56	(0.49)	0.47	(0.50)	0.33	(0.47)	0.44	(0.49)	0.44	(0.49)
iv) post graduate degree	0.08	(0.04)	0.04	(0.21)	0.05	(0.22)	0.05	(0.23)	0.05	(0.23)
Entrepreneur type: (1 if type #; 0 otherwise)										
i) Vocational	0.20	(0.40)	0.20	(0.40)	0.16	(0.37)	0.16	(0.37)	0.18	(0.38)
ii) Risk	0.09	(0.29)	0.08	(0.27)	0.09	(0.28)	0.16	(0.37)	0.11	(0.31)
iii) Agents	0.42	(0.49)	0.50	(0.50)	0.47	(0.50)	0.41	(0.49)	0.45	(0.49)
iv) By necessity	0.12	(0.33)	0.11	(0.32)	0.13	(0.34)	0.12	(0.33)	0.12	(0.33)
v) Aseptic	0.14	(0.47)	0.09	(0.28)	0.13	(0.34)	0.11	(0.32)	0.12	(0.32)
Firm										
Age of firm	4.78	(1.53)	4.80	(1.41)	4.97	(1.51)	4.64	(1.66)	4.80	(1.54)
Start-up employees	6.49	(28.4)	3.92	(8.53)	5.19	(19.46)	3.62	(4.97)	4.75	(17.4)
Start-up partners	2.87	(1.84)	3.13	(8.29)	2.45	(1.28)	2.19	(1.26)	2.60	(3.95)
Start-up capital (m€)	1.76	(3.74)	1.43	(3.37)	0.98	(2.88)	1.00	(2.90)	1.24	(3.20)
Formal business plan ²	0.61	(0.49)	0.46	(0.49)	0.46	(0.49)	0.48	(0.50)	0.49	(0.50)
Sectors³										
Manufacturing	0.04	(0.21)	0.09	(0.28)	0.05	(0.23)	0.06	(0.24)	0.06	(0.24)
Retail, hotel and catering	0.26	(0.44)	0.32	(0.46)	0.24	(0.43)	0.30	(0.46)	0.28	(0.45)
Financial institutions	0.38	(0.48)	0.27	(0.44)	0.36	(0.48)	0.30	(0.46)	0.33	(0.47)
Health and education	0.21	(0.40)	0.16	(0.37)	0.17	(0.38)	0.21	(0.41)	0.19	(0.39)
Construction	0.05	(0.22)	0.09	(0.28)	0.11	(0.32)	0.05	(0.22)	0.08	(0.27)
Energy and transport	0.04	(0.19)	0.04	(0.21)	0.03	(0.19)	0.04	(0.21)	0.04	(0.20)

Variables	Dreams (D)		Technology Transfer (TT)		Business Formation (BF)		Problem Solving (PS)		Total	
	mean	s.t	mean	s.t	mean	s.t	mean	s.t	mean	s.t
Region⁴										
i) regional area #1	0.42	(0.49)	0.35	(0.48)	0.38	(0.48)	0.37	(0.48)	0.38	(0.48)
ii) regional area #2	0.31	(0.46)	0.42	(0.49)	0.40	(0.49)	0.41	(0.49)	0.39	(0.48)
iii) regional area #2	0.25	(0.43)	0.21	(0.41)	0.21	(0.41)	0.21	(0.41)	0.22	(0.41)
# observations	147		142		210		202		701	

¹relationship current previous experience (1 if relationship; 0 otherwise); ² (1 if founder had a formal plan written business plan prior to starting the business; 0 otherwise). ^{3,4} (1 if firm is in sectors or regional area; 0 otherwise)

As far as the type of entrepreneur is concerned, Type I (vocational) are found in (D) and (TT). Type II (risk) are found in (PS). Type III (typical) in (TT) and (BF). And finally type IV entrepreneurs (necessity) are to be found distributed equally among the four identified opportunities, as are type V (aseptics) except in (TT) which contains a smaller proportion.

The companies of each identified opportunity, are of a similar age, around five years. However, the size of company, in terms of the number of initial employees is clearly greater in the case of opportunity (D) with an average of 6.5 employees. In the same way, those with greater initial capital are (D) and (TT). The companies with least initial capital are those related to (PS) and in particular with (BF). Finally, for the sectors and regions the opportunities are represented alternately. For example, type (D) are more relevant in financial institutions, health and education, whilst (TT) is equally well represented in industry and services and (BF) in construction. At a regional level (D) is represented to a greater extend in regions 1 and 3 with lower and higher socio economic levels respectively and (TT) at a medium level in region 2.

ANALYSIS AND RESULTS

Table 7 contains the results of the logit multinomial model. Interesting differences exist between the groups of identified opportunities. The omitted opportunity is Business Formation.

As regards the characteristics of the entrepreneur, the coefficient associated with their age is negative and statistically significant up to 99% of the confidence level for opportunities D and TT. This result shows a lower age for the entrepreneurs in the opportunities just mentioned compared to a higher age for those in BF. On the other hand, the coefficient for the variable related to the entrepreneur having previous experience in the activity in which the company is presently engaged is positive and statistically significant for those entrepreneurs in D and PS, being larger in the former. As regards professional experience, those entrepreneurs in opportunity TT have more years of experience than those in BF. The entrepreneurs' level of formal education indicates that a university education to degree or engineering level is significant and positive for the three groups of opportunities in relation to the omitted opportunity. This relation is more pronounced for those

entrepreneurs related to opportunity D than for the others. Furthermore, post graduate education level indicates once again that those entrepreneurs associated with D and to a lesser extent with PS have a higher level of education. As regards gender, women are less likely than men to create a company in TT and PS compared to BF.

Therefore, as a consequence of the results mentioned, hypotheses (1a) could be accepted. To summarize, opportunity *Dreams* (D) consists of those entrepreneurs with a higher education level and more previous experience in the activity in which the company is engaged. The managers in opportunity *Technology Transfer* (TT) have more professional experience, and together with *Problem Solving* (PS) the probability of a woman creating a company is less than in the case of *Business Formation* (BF). The managers associated with BF are older and have a lower level of education. Hypotheses (1b) could equally well be accepted as, although the entrepreneurs associated with D are younger it is possible to positively relate their higher level of education and greater previous experience in the present business activity with the opportunity identified as innovative.

	<i>Dreams</i>		<i>Technology Transfer</i>		<i>Problem Solving</i>	
	coefficients	t-ratios	coefficients	t-ratios	coefficients	t-ratios
Entrepreneur						
constant	-0.073	1.107	1.660	1.42	0.987	1.07
Age	-0.041***	-2.80	-0.082***	-4.99	-0.012	-0.92
Gender (1 if male; 0 if female)	-0.422	0.272	-0.788***	-2.72	-0.602**	-2.39
Experience	-0.016	0.020	0.070***	3.95	-0.005	-0.31
Relationship experience ^a	1.141***	4.21	0.371	1.39	0.612***	2.61
Education degree: (1 if degree #; 0 otherwise)						
ii) professional formation	0.309	0.73	0.324	0.80	0.436	1.23
iii) university degree	1.155***	3.61	1.123***	3.46	0.966***	3.38
iv) post graduate degree	1.580***	2.83	0.967	1.54	1.079**	1.96
Entrepreneur type: (1 if type #; 0 otherwise)						
ii) Risk	-0.227	-0.45	-0.598	-1.11	0.399	0.87
iii) Agents	-0.682**	-1.95	-0.468	-1.33	-0.325	-0.99
iv) By necessity	-0.501	-1.05	-0.824	-1.63	0.115	0.27
v) Aseptic	-0.238	-0.53	-0.968**	-1.95	-0.155	-0.36
Firm						
Age of firm	0.906***	2.31	1.325***	2.91	0.151	0.47
Age of firm ²	-0.132***	-2.62	-0.177***	-3.13	-0.044	-1.05
Start-up employees	-0.007	-0.76	-0.008	-0.69	-0.019	-1.31

Table 7: Multinomial Logit (category of reference opportunity type: Business Formation)

	<i>Dreams</i>		<i>Technology Transfer</i>		<i>Problem Solving</i>	
	coefficients	t-ratios	coefficients	t-ratios	coefficients	t-ratios
Start-up partners	-0.241	-1.11	-0.590***	-2.73	-0.570***	-2.69
Start-up partners ²	0.037	1.53	0.060***	2.52	0.043*	1.70
Start-up capital (m€)	7.28 10 ⁶ *	1.87	4.96 10 ⁶	1.21	1.68 10 ⁹	0.04
Formal business plan ^a	-0.770***	-2.93	-0.070	-0.26	-0.038	-0.16
Sectors^a						
Retail and Hotel and catering	0.574	0.92	-0.092	-0.17	0.819	1.51
Financial institutions	0.070	0.12	-0.977*	-1.78	0.193	0.36
Construction	0.786	1.23	-0.388	-0.66	0.937*	1.68
Health and education	0.077	-0.11	-0.789	-1.22	-0.800	-1.17
Energy and transport	0.445	0.50	-0.347	-0.42	1.160	1.58
Region^a						
ii) regional area #2	-0.516*	-1.73	0.054	0.19	0.115	0.44
iii) regional area #2	0.082	0.25	0.125	0.36	-0.097	-0.31
Statistics						
# observations	605					
Log likelihood	-729.459					
Chi2	201.78***					
significance levels *p<0.10, **p<0.05, ***p<0.01						
^a omitted variables: male; first degree; 1 he/she has related experience; entrepreneurship had a formal written business plan ; entrepreneurship vocational; regional area #1 socio-economic worse characteristics; manufacturing sector						

The results obtained about the motivation of the entrepreneur/type of entrepreneur and the opportunity or business idea, suggest less probability of identifying standard entrepreneurs in opportunity D than the omitted category of vocational entrepreneur. In the same way, there is less probability of associating aseptic entrepreneurs as opposed to vocational ones to opportunity TT. To sum up, taking into consideration opportunity BF, those entrepreneurs characterised as vocational are more likely to be associated with D or TT than the standard or aseptic entrepreneurs respectively. As regards hypotheses (2) in which we set out to check the relation between the identified opportunity and the motivation of the entrepreneur, they are equally acceptable.

The variables that associate the company characteristics with the entrepreneur show some interesting results. The respective positively and negatively significant coefficients for the age of the company variable and its quadratic component indicate an inverted U relationship in opportunities D and TT regarding BF. This trajectory could indicate that those companies associated with opportunities D and TT are initially older than those related to BF. From the

trajectory's maximum the companies related to BF are older than those associated with D and TT. Taking into account the number of partners involved when the company is set up, those that form part of opportunities TT and PS have a U structure in relation to those of BF. It is therefore more probable that at the out set there were a small number of partners involved in the company in opportunities TT and PS. From the trajectory's minimum the tendency changes, the companies belonging to BF have more partners.

The companies with more initial capital at the out set are related to opportunity D in contrast to those linked to BF. As far as the planning of the original business idea, before the company is set up or the activity initiated is concerned, the negative and statistically significant sign of the dummy variable for drawing up formal business plans, shows that the probability of not elaborating a plan is less in the case of entrepreneurs belonging to opportunity D than for those belonging to BF. This leaves Hypotheses (3) to be tested, thus demonstrating that different types of company exist in relation to the business opportunities.

Finally, it appears that the environment variable has not had a great influence. The importances of the region and sector variable coefficients have not been very significant. This could be due to the fact that the characteristics that have already been analysed go a long way towards explaining these effects. This result leads us to reject hypotheses (4).

CONCLUSIONS AND EXTENSIONS

The reason behind the birth of any company is related to the realisation of an activity that generates value for the consumer of the product or service. As such the creation of the firm requires the identification of an opportunity and the decision to exploit it. The object of this work has been to try and increase our knowledge of which factors have the greatest influence on the identification and development of the business opportunity. In most of the literature on the subject, the studies concentrate on the characteristics of the business manager (background, education, motivation) and on the characteristics of the environment, considering each factor independently. In the last few years the implications that identifying the business opportunity could have, or the possibility of identifying them as an aspect to be taken into account, has emerged as an interesting line of analysis.

The main objective of the analysis used in this work is to classify the entrepreneur's business opportunities and determine the factors that could explain them. This work offers two novel aspects to take care; i) the consideration of the business opportunity and the factors that explain it as a relevant element for analysis, and so perhaps fill the gap that exists in the empirical literature and ii) the global analysis carried out where the characteristics of the entrepreneurship, the company and their environment are considered.

The results obtained show that the business opportunity identified and exploited by an entrepreneur depends initially on his work experience, his previous experience in activities related to the present business activity and his level of education. The level of human capital is one of the

main determining factors of business opportunity, with considerable differences existing between the types of opportunity. Entrepreneurs with a higher level of education and more experience are associated with more creative business opportunities. Entrepreneurial motivation shows that the more motivated the entrepreneurs are, the more likely they are to be involved in creative activities.

The results derived from decisions taken by the entrepreneur about resources show that differences exist in the organisational characteristics of the companies at their inception and the opportunity or business idea. For example, companies that exploit creative opportunities have more initial capital or a better level of planning. Finally, the results obtained for the environmental characteristics in terms of the activity sector or region, although of a lower explanatory level, demonstrate some relevant facts, such as the location of the companies in relation to the socio-economic level or the activity sector.

We believe that the analysis carried out in this work proposes an interesting line of empirical investigation which also contains theoretical support that can be of great assistance, such as the works of Kizner (1973, 1979, 1997), Ardichvili et al. (2003), Eckhardt and Shane (2003), Choi and Sheperd (2004) amongst others. Some areas for future work are related to the proposals made by Ardichvili et al. (2003 p.120) and with the possibility of working with longitudinal panel data in which it is possible to analyse the entrepreneur over time. We hope that these results, although preliminary, encourage future efforts to obtain data with which to verify its solidity. The implications of these types of studies, for the theory of entrepreneurship and for the design of policies towards the creation of new firms, are derived.

NOTES

- ¹ As will be seen in the following section this contrast is important as it constitutes the basis for identifying the type of entrepreneur, which serves as one of the necessary variables of the model proposed in this work.
- ² To determine the managers' motivation a five point Likert scale has been used, in which the value 1 is regarded as "unimportant" whilst value 5 reflects a level of "extremely important" for the evaluated reward. With the aim of checking the reliability of the scale, the Cronbach coefficient α has been used (all the values exceed 0.6).
- ³ The examination of the correlation matrix amongst all the variables allows us to check that the attributes of the entry are highly correlated and as such, their characteristics are adequate for a factorial analysis to be undertaken. The measure of the adjustment sample KMO = 0.793 and the Barlett test (0.0000) just as the results of the anti-image matrix justified the application of the factorial analysis.
- ⁴ Note that the eigenvalue of factors 5 (Roles) and 6 (Localization) have values inferior to the unit. This is due to the consideration of the *contrast of fall* method rather than the latent root in the choice of the number of factors to be determined (see figure I in appendix). According to (Hair et al. 1999: p.118) when the eigenvalue are close to the unit in the falling slope (see graph 1 in the appendix) it is possible to maintain the number of factors found under both conditions.

- ⁵ The application of the analysis cluster using the Ward method gave place to the creation of five groups (from a total of 701 entrepreneurs surveyed) in relation to the six factors mentioned previously.

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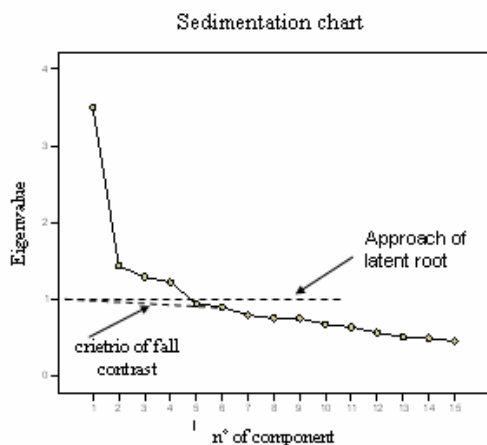
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APPENDIX

Figure I



**CUSTOMER SERVICE DURING
PEAK (IN SEASON) AND
NON-PEAK (OFF SEASON) TIMES:
A MULTI-COUNTRY (AUSTRIA,
SWITZERLAND, UK & USA)
EXAMINATION OF ENTREPRENEURIAL
TOURIST FOCUSED CORE PERSONNEL**

**Shawn Carraher, Cameron University
John A. Parnell, University of North Carolina at Pembroke**

ABSTRACT

This study examines the customer service of front line core service personnel in entrepreneurial businesses service businesses that serve the tourist markets in four countries. We assess the influence that seasonality might have on the utility of a selection inventory for predicting levels of customer service. Subjects included 309 core employees servicing the tourist industries in San Francisco, United States; 257 in Vienna, Austria; 250 in Zurich, Switzerland; and 255 in London, United Kingdom. Subjects were surveyed and assessed along dimensions of customer service orientation by trained assessors while serving customers. Response rates exceeded 90 percent as the business owners saw the study as an opportunity to understand how to earn greater revenues from their businesses. The mean service orientation ratings ranged from 3.53 in Austria to 3.62 in Switzerland during off-season or the non-peak tourist time and from 3.92 in Austria to 3.99 in the United Kingdom during the peak tourist season. Results support the use of a biodata inventory as a cost-effective means for small businesses to develop and retain competitive advantage relative to their larger rivals.

INTRODUCTION

Changes in marketing in recent years have affected small and large businesses alike (Garg & Chan, 1997). Many small firms have discovered that an emphasis on service orientation is more important today than ever before. Because customers have become more selective and conservative in their buying habits and larger companies are more forceful in attaining target markets, small businesses often focus on meeting customer needs effectively in order to retain their loyalty (Oh,

2000; Skogland & Siguaw, 2004). Attention to personal service can provide competitive advantage vis-à-vis larger, less personal competitors. In some respects, the small business manager or owner can no longer think of service as one aspect of the business but rather as the reason for its existence (Mill, 1986; Potter, 1988).

An organization's success depends on effective customer relations, a role played predominantly by its customer service employees. As such, firms often attempt to shape their images with customers by managing the types of behaviors employees display (Froehle & Roth, 2004; Hipkin, 2000). This is especially important in small- and medium-sized enterprises (SMEs) where nearly all employees have contact with customers on a daily basis (O' Gorman & Doran, 1999; Parnell, Carraher, & Odom, 2000; Zinger, LeBrasseur, & Zanibbi, 2001). Research suggests that firms emphasizing customer service report higher profitability, return on assets, return on investments, return on sales, and profit growth than those reporting less of an emphasis on customer service by the employees (Wright, Pearce, & Busbin, 1997).

This paper uses front line core personnel from entrepreneurial businesses operating in tourist areas to examine the influence that seasonality might have on the utility of a selection inventory for predicting levels of customer service. This type of instrument could be used for both selection and developmental purposes in order to increase the average levels of customer service within a population of employees. In this industry core employees are typically defined as permanent employees who stay with the business year in and year out as opposed to seasonal employees who are only hired during the "busy" season. Most core employees are extended family members of the entrepreneur or entrepreneurs who own the business.

REVIEW OF THE LITERATURE

Service-Orientation

Customer orientation can be viewed as a "set of basic individual predispositions and an inclination to provide service, to be courteous and helpful in dealing with customers and associates" (Harvey-Cook & Taffler, 2000 p 103). Successful organizations should be customer-oriented (Parasuraman, Zeithaml, & Berry, 1985). Indeed, since the introduction of the marketing concept more than four decades ago, customer orientation has been recognized as the underlying foundation of marketing theory and practice (Jaworski & Kohli, 1993). Evolving from this recognition is the assumption that customer-oriented firms should outperform competitors by anticipating customer needs and responding with products and services that have superior value. Organizations improve their abilities to do so as their employees gain more experience and become more entrenched in a customer-oriented culture (Zinger et al., 2001).

Most businesses compete based on service, at least to some degree (Lynn, Lytle, & Bobek, 2000). As such, customer service is a critical success factor for many organizations (Phillips, 1990;

Bowen, Siehl, & Schneider, 1989). Service quality is the foundation of the service pledge that firms offer its customers and embodies an important part in overall value from which the customers judges a businesses performance (Harvey-Cook, & Taffler, 2000). Numerous studies have demonstrated that profit, growth, customer satisfaction and loyalty are enhanced by effective service orientation (Doyle & Wong, 1998; John, 1996). Those businesses whose policies and practices support service excellence generally have a competitive edge in most markets (Lynn et al., 2000).

Excellent customer service emanates from quality, customer-oriented employees. Indeed, poor customer service is ascribed to many factors but one area is that of the human resources employed in the customer service delivery, and improving it often centers on selection of the right employees to do the job. Businesses need to cultivate a climate for service that crafts, nurtures, and rewards services practices and behaviors to meet customer needs (Lytle, Hom, & Mokwa, 1998). Today more than ever, firms are keenly aware of the customer-orientations of its employees (Baird & Carraher, in press; Carraher, Buckley, Scott., Parnell, & Carraher, 2002; Carraher, Parnell, Carraher, Carraher, & Sullivan, 2006; Carraher & Sullivan, 2003).

Marketers who advocate the marketing concept believe that organizations eventually attain success by satisfying customer needs (Deshpande, Farley, & Webster, 1993; Kotler, 1997; Paridon, Carraher, & Carraher, 2006). As competition becomes more intense, small businesses recognize that adopting a strong service orientation in their marketing efforts not only gives them a differential advantage, but is also a prerequisite for their survival. Small businesses can no longer adhere to the role of being simply movers of merchandise between manufacturer and consumer. They must ask the customers what they want and then obtain it for them (McDermott, 1990). Successful adoption and implementation of service-oriented business philosophy lies not in the size of the business but in its attitude towards the customer.

Organizations—especially those in the retail sector—are placing increased emphasis on hiring individuals with a strong customer service orientation (Gresham, Heneman, Fox, & McMasters, 2002). Retailers can differentiate themselves by pursuing service orientation as a business strategy (Homburg, Hoyer, & Fassnacht, 2002). Broadly, speaking, individual service workers are direct participants in implementing the marketing concept. A service worker's personal attention is the most important component of service delivery and is directly leads to overall customer satisfaction (Rust, Zahorik, & Keiningham, 1996). Unfortunately, the relative attention given to this topic in the literature has been relatively limited (Arias-Aranda & Alvarez-Gil, 2004; Homburg, Hoyer, & Fassnacht, 2002).

The work of Hogan and associates (Hogan, Hogan, & Busch, 1984) more than two decades ago remains seminal. To measure the traits from their definition of service-orientation, they developed the Service-orientation Index (SOI), an instrument that at that time consisted of 87 true-false items covering issues of agreeableness, adjustment, conscientiousness, and sociability. Validation of the SOI on a group of healthcare workers revealed a significant correlation ($p < .05$) of $r = .31$ between SOI scores and service-orientation ratings (Hogan & Hogan, 1992). Following

this work, several consulting companies such as Personnel Decisions, Questar Data Systems, and CORE Corporation have developed their own instruments to measure service-orientation and Hogan and Hogan have refined the SOI (Carragher & Sullivan, 2003). These instruments are based on measures of attitudes and/or behaviorally based personality questions, but research published in scholarly journals performed by individuals not affiliated with the consulting companies has yet to substantiate the efficacy of these instruments (Gibelman & Gelman, 2003). Others have recommended the use of more behaviorally based selection procedures such as biographical information blanks, also called biodata (Bowen, Siehl, & Schneider, 1989; Schneider, 1997).

Seasonality and Customer Service

This study reports findings on businesses that go through seasonal changes in customer demands and employment. The seasonal nature of tourism is widely recognized in many different countries (Ashworth & Thomas, 1999; Kemperman, Borgers, Oppewal, & Timmermans, 2000). While some fluctuations can be deterministic due to calendar and weather effects, seasonal variations are also caused by economic agents and hence may not be constant across time. Thus, seasonal patterns may shift due to changing habits and utility functions of consumers (Frances, 1996). As competition continues to intensify with businesses developing new strategies to survive, service orientation becomes a major tool that can assist them in meeting profit and growth goals while an organization undergoes seasonal variations in demand and in changes in the demand curves for services provided (Kimes, 2006; Kasikci, 2006; Dickson, Ford, & Laval, 2005). With rapid changes occurring in all tourist markets, managers and entrepreneurs have to guard against retaining old practices while implementing new service oriented ideas. This is a major culture change in building a service climate that will enhance the business competitiveness (Doyle & Wong, 1998; John, 1996). As such, this study provides a perspective that can assist businesses and marketers as they think about new service orientation strategies to deal with seasonal variations in demand and in changes in the patterns of demand.

Biographical Data

The use of biographical information in the selection of employees dates back to 1894 when T.L. Peters used it to select insurance agents (Ferguson, 1962). Research using biographical questionnaires in multiple-choice formats blossomed during World War II, with much of the research demonstrating that biodata could predict success in several of the branches of the military (McDermott, 1990). Reviews of further work support the empirical validity of biographical data in predicting various criteria including job placement success (Harvey-Cook & Taffler, 2000), turnover (Lynn et al. 2000), and performance for service employees in large organizations (Carragher et al., 2006). The use of biodata differs from measures of values, attitudes, moods, interests, personality,

and abilities, but it may assess constructs in all of these domains (Stokes, 1999; Schmidt, Kim, Ramsay, & Gillespie, 2004). Biodata questions are often presented in a standardized self-report questionnaire with a multiple-choice format that asks individuals to describe past attitudes, behaviors, and experiences (Gatewood & Field, 2001). For example “in high school, how easy were your math classes?” and “in comparison with most people you know, how often do your friends come to you for advice or guidance” are biodata questions which could be reflections of perceived cognitive abilities and the personality construct of agreeableness, respectively (Stokes, 1999). Researchers assume that past and present behaviors, attitudes, interests, and intentions are the best predictors of future behavior (Owens, 1976; Stokes, 1999). Biodata responses are generally believed to be reliable, but research has been inconclusive (Law, Mobley, & Wong, 2002).

Others have used samples of students in order to create a parsimonious biodata inventory purported to measure constructs related to service-orientation (McBride, 1988; McBride, 1997; McBride, Mendoza, & Carraher, 1997). McBride developed a 39-item biodata inventory hypothesized to contain the following 7 topical scales: agreeableness, desire to make good impressions on others, life satisfaction, need for achievement, resistance to stress, responsibility, and sociability. Two factors—sociability and good impressions—were found to relate significantly to estimates of service-orientation.

Based upon modifications suggested by McBride et al (1997) Carraher, Mendoza, Buckley, Schoenfeldt, and Carraher (1998) examined whether or not a modified version of McBride’s 39-item biodata instrument could be used to measure the service-orientation construct. Using limited information factor analysis, Carraher and associates found support for an eight-factor solution—agreeableness split in to two factors, helpfulness and agreeableness—as well as finding that service-orientation ratings were consistently related with three of the scales: good impression, sociability, and helpfulness.

Two years later, Chait, Carraher, and Buckley (2000) used 605 job applicants to reexamine the relationship that the biodata measure would have with service orientation. Using principal components analysis, they found support for a five-factor model with McBride’s biodata instrument. Their five-factor model was similar to the “big five” personality factors of extraversion, conscientiousness, emotional stability, agreeableness, and openness to experience. The results from this five-factor model had a similar multiple R (.46) to the original seven-factor solution McBride hypothesized.

In a cross-cultural study, Carraher, Buckley, Scott, Parnell, and Carraher (2002) examined 704 job applicants from the United States, Canada, and United Kingdom, extending the work done by Chait and Associates across borders. They found that across countries, service-orientation ratings were significantly correlated with agreeableness, extraversion, and openness to experience, and they were also significantly correlated with conscientiousness in both non-American samples but not in the American sample. The six-month, test-retest reliability estimates ranged from .73 (openness to experience) to .84 (extraversion). More recently, Carraher, Carraher, and Mintu-Wimsatt (2005)

sampled 403 employees from a global financial information services organization in United Kingdom and 295 from Poland, Russia, and Ukraine and examined the effectiveness of the instrument's value for selection and development. They found that the instrument was more effective in Eastern Europe than in the United Kingdom.

The analysis presented herein extends the work of Carraher and associates, and examines whether or not McBride's selection instrument is useful within entrepreneurial tourist businesses with core service workers during in-season and out-of-season times of the year. Specifically, the 39-item inventory developed by McBride (1988) is utilized in order to assess individuals' personality characteristics and compare these assessments to levels of service-orientation determined through actual on-the-job performance. Following this work, (Carraher et al. 2002) we hypothesize that extraversion, openness to experience, agreeableness, and conscientiousness will predict the customer service oriented behaviors of core service workers in all four countries, while emotional stability will not be related to customer service oriented behaviors. It is also expected that employees treat customers better during the off-season than during peak season because they should have more time to devote to each customer.

METHODS

Subjects

Subjects included 309 core service workers in entrepreneurial tourist businesses in San Francisco, United States; 257 in Vienna, Austria; 250 in Zurich, Switzerland; and 255 in London, United Kingdom. Average ages at the beginning of the study were 24.8 years (SD = 4.44) in the United States, 24.8 years (SD = 4.23) in Austria, 26.4 years (SD = 3.92) in Switzerland, and 24.7 years (SD = 4.47) in the United Kingdom. Population sampling was utilized with for all full-time front-line core employees. Males were between 52 percent (Austria) to 59 percent (United Kingdom) of the samples so they were relatively evenly divided between men and women. Subjects were surveyed and assessed along dimensions of customer service orientation by trained assessors while serving customers. Response rates exceeded 90 percent as the business owners saw the study as an opportunity to understand how to earn greater revenues from their businesses. The mean service orientation ratings ranged from 3.53 in Austria to 3.62 in Switzerland during off-season or the non-peak tourist time and from 3.92 in Austria to 3.99 in the United Kingdom during the peak tourist season.

Instrument

The primary instrument was the selection inventory developed by McBride. Using principal components analysis as utilized by Chait and associates (2000) we found support for the five-factor

models so we are going them with scales calculated using regressed factor scores. Carraher et al. (2002) and associates found the 6-month, test-retest reliability estimates to range from .73 (Openness to Experience) to .84 (Extraversion). In addition to demographic items (age, sex, etc.), many of the questions contained in the inventory consisted of experiential, attitudinal, and behaviorally based items (e.g. “When you were a member of a small group, how much do you participate?” and “How comfortable are you in new places and situations?”). The response formats for all questions except for age and gender had five response categories.

Customer Interaction & Criterion: Ratings of Service

The customer service interactions took place at the work sites of the entrepreneurial businesses. Three experienced observers rated the performance of the subjects in order to allow a comparison in the ratings. Each of the raters had been trained in order to accurately and consistently identifies differing levels of service-orientation. In addition to having graduate level training in performing behavioral assessments each assessor also received at least ten hours of training in the field specific to assessing customer service orientation. After observing 6-30 actual customer service interactions, raters would rate each of the subjects. They would also speak with 50 percent of the customers after the conclusion of the customer service interaction. Service-orientation was measured using a 17-item rater evaluation form designed by Schoenfeldt (1999). The criterion scores were obtained by averaging the service-orientation scores given by the raters as has been previously done.

RESULTS AND ANALYSIS

Table 1 presents the means, standard deviations, and correlations between the five dimensions of the customer service instrument and the measurement of customer service at peak and non-peak seasons. Within all four samples the top three variables correlated with customer service were extraversion, conscientiousness, and agreeableness. In addition, openness to experience is relatively unrelated to customer service during the non-peak season and related to customer service during the peak season. The same pattern of results is found for emotional stability with the exception of the United States where emotional stability was related to customer service in both peak and non-peak times. In the other three samples, emotional stability has a weak but significant correlation with customer service in the peak season (r 's = .14, .15, and .16, respectively).

Interestingly, the correlations between service levels at peak seasons and non-peak seasons produced a mean correlation coefficient of .545. The measure of customer service itself had coefficient alpha reliability estimates of .97 to .98 within these samples, indicating that customer service may not be the same constructs during peak and non-peak seasons. It may also be noted that while we had proposed that customer service levels would be higher during the non-peak than the peak times we found just the opposite.

Table 1: Intercorrelations of McBride Instrument Scales and Service Orientation											
								USA		Austria	
	EXTRA	CONS	EMSTAB	AGREE	OPEN	SVYN	SVYP	MEANS	SD	MEANS	SD
EXTRAVERSION	.83	.59 ^c	.14 ^a	.36 ^c	.12	.42 ^c	.48 ^c	3.55	.49	3.59	.49
CONSCIENTIOUSNESS	.56 ^c	.78	.38 ^c	.36 ^c	.37 ^c	.39 ^c	.43 ^c	3.72	.43	3.73	.47
EMOTIONAL STABILITY	.16 ^b	.32 ^c	.85	.31 ^c	.49 ^c	.01	.15 ^a	3.31	.36	3.30	.34
AGREEABLENESS	.35 ^c	.39 ^c	.34 ^c	.75	.25 ^c	.26 ^c	.33 ^c	3.77	.47	3.73	.47
OPENNESS TO EXPERIENCE	.01	.31 ^c	.39 ^c	.23 ^c	.73	.01	.20 ^c	3.37	.47	3.33	.45
SERVICE ORIENTATION (Non-peak)	.37 ^c	.31 ^c	.16 ^b	.32 ^c	.09	.97	.52 ^c	3.57	.79	3.53	.74
SERVICE ORIENTATION (peak)	.35 ^c	.42 ^c	.22 ^c	.37 ^c	.20 ^c	.55 ^c	.97	3.93	.60	3.92	.66
Coefficient alpha reliability estimates for American sample on the diagonal											
American sample (n = 309) below diagonal, Austrian sample (n = 257) above diagonal											
								Switzerland		U.K.	
	EXTRA	CONS	EMSTAB	AGREE	OPEN	SVYN	SVYP	MEANS	SD	MEANS	SD
EXTRAVERSION	.85	.54 ^c	.13 ^a	.29 ^c	.08	.39 ^c	.43 ^c	3.56	.50	3.55	.49
CONSCIENTIOUSNESS	.51 ^c	.80	.31 ^c	.40 ^c	.28 ^c	.43 ^c	.51 ^c	3.74	.43	3.72	.43
EMOTIONAL STABILITY	.07	.25 ^c	.85	.40 ^c	.36 ^c	.09	.14 ^a	3.30	.34	3.35	.48
AGREEABLENESS	.33 ^c	.31 ^c	.30 ^c	.74	.29 ^c	.27 ^c	.28 ^c	3.79	.45	3.79	.48
EXPERIENCE	.00	.29 ^c	.35 ^c	.22 ^c	.74	.01	.17 ^c	3.34	.45	3.34	.48
SERVICE ORIENTATION (Non-peak)	.40 ^c	.41 ^c	.05	.27 ^c	.02	.98	.59 ^c	3.62	.77	3.55	.76
SERVICE ORIENTATION (peak)	.39 ^c	.47 ^c	.16 ^b	.31 ^c	.23 ^c	.52 ^c	.98	3.96	.61	3.99	.58
Coefficient alpha reliability estimates for Swiss sample on the diagonal											
Switzerland sample (n = 250) below diagonal, United Kingdom sample (n = 255) above diagonal											
a = p<.05 b = p<.01 c = p<.001											

Table 2 examines whether these results are significantly different using t-tests. T-values ranged from -7.70 to -11.41 in all four cases, suggesting that the customer service levels were significantly lower during the non-peak season than during the peak season. In order to gauge whether or not these results were atypical we also assessed the performance of 293 of the employees in San Francisco one year after the first assessment during the peak time period and found a mean for customer service of 3.94 which was not significantly different from their scores 1 year earlier ($t = .55$ and $r = .802$) and then again a week later with a mean level of 3.93 ($r = .96$ for one week test-retest reliability).

Table 2: Comparisons of Average Service Orientation Ratings at Peak and Non-peak Times of the Year

	Non-peak	Peak		
Sample	M	M	t	p
1. United States	3.57	3.93	- 9.57	.0000001
2. Austria	3.53	3.92	- 9.21	.0000001
3. Switzerland	3.62	3.96	- 7.70	.0000001
4. United Kingdom	3.55	3.99	-11.41	.0000001

Results for regressions analyzing all five of the scales on the criterion are presented in Table 3. Extraversion was the only scale consistently correlated with service-orientation ratings across all of the samples during both peak and non-peak seasons. Agreeableness and Conscientiousness were significantly correlated with customer service in all but one situation (Peak time in the United Kingdom for Agreeableness $\beta = .08$ and non-peak time in the United States for Conscientiousness $\beta = .08$ sample); Emotional Stability was not significantly related to customer service in any of the samples during either peak or non-peak times while Openness to Experience was able to contribute to the prediction of customer service during non-peak times in Switzerland and the United Kingdom (β 's = $-.134$ and $-.123$, respectively). The R^2 values suggest that between 17.8 and 29.9 percent of the variance in customer service levels can be explained with McBride's instrument. Thus, while an instrument such as this one could potentially provide great utility for organizations seeking to use a questionnaire for selection or developmental purposes, we strongly suggest that additional cross cultural research be performed on the construct of service-orientation itself in order to ascertain its meaning between, within, and across cultures—and across time periods.

Table 3: Regression of Service-orientation with McBride Big Five Scales

Scales	Beta Weights							
	United States		Austria		Switzerland		United Kingdom	
	Non	Peak	Non	Peak	Non	Peak	Non	Peak
Extraversion	.246 ^c	.147 ^c	.219 ^c	.337 ^c	.192 ^c	.193 ^c	.199 ^c	.223 ^c
Agreeableness	.182 ^b	.210 ^c	.145 ^a	.141 ^a	.159 ^a	.131 ^a	.136 ^a	.080
Emotional Stability	.037	.028	-.113	.036	-.043	.003	-.033	-.050
Conscientiousness	.080	.215 ^c	.290 ^c	.152 ^a	.307 ^c	.292 ^c	.307 ^c	.354 ^c
Openness to Experience	.010	.071	-.118	.084	-.134 ^a	.115	-.123 ^a	.049
Multiple R from regression analysis								

Scales	Beta Weights							
	United States		Austria		Switzerland		United Kingdom	
	Non	Peak	Non	Peak	Non	Peak	Non	Peak
including 5 topical scales	.422 ^c	.488 ^c	.487 ^c	.533 ^c	.494 ^c	.525 ^c	.490 ^c	.547 ^c
R ²	.178	.238	.237	.284	.244	.276	.240	.299
a = p<.05 b = p<.01 c = p<.001								

CONCLUSIONS AND FUTURE DIRECTIONS

A service-oriented philosophy is one of the most logical and cost-effective ways for small businesses to develop and retain a competitive advantage in customer loyalty and satisfaction relative to their larger counterparts (Wredenburg & Wee, 1986). This is supported by the fact that while many small businesses function with limited resources, they generally have information accessible to enhance the effectiveness of their customer relations. The results presented in this study support the use of a biodata inventory as a basis for such an approach.

Broadly speaking, these findings are not surprising. They mirror those found by previous researchers with this instrument for job applicants in the United States, United Kingdom, and Canada (Carragher et al., 1998; 2002), suggesting that it may be useful for developmental purposes so that small business owners across cultures can increase their service-oriented behaviors. In fact, O’Gorman and Doran (1999) noted that it is through the focus on serving the customer well that small and medium sized businesses may more effectively compete with larger organizations that may have a cost advantage.

Certain individuals appear to be better suited for delivering excellent customer service than others. The present study demonstrates that service-orientation may be found most frequently in extraverted individuals who make a conscious effort to actively help others and seek out new ways to satisfy the needs of customers. As a consequence, it does appear that inventories such as the one developed by McBride may be useful for identifying individuals with the tendency to exhibit strong service-oriented behaviors for both developmental and selection purposes.

While the identification of proactive, considerate employees may be important to any organization, it is especially crucial in ones in which customer service may be a major part of the job for most of the positions within the organization as is increasingly becoming the case in the United States and around much of the world. This is especially important in small businesses where most employees may be called upon on a consistent basis to interact with both internal and external customers.

This research sheds light on those areas of service-orientation that may be most important in the identification of individuals likely to behave in a service-oriented manner within small businesses. This type of an instrument can make an important contribution in the identification of individuals across cultures likely to exhibit high levels of service-oriented behaviors and that additional cross-cultural research is performed on the construct of service-orientation.

These findings are important as they support the propositions of Vargo and Lusch about the development of a new dominant logic in the area of marketing that could lead to positive economic outcomes for hospitality businesses and managers. Their central proposition is that marketing has changed from focusing on manufacturing and hard products to focus on provision of services as fundamental to the economic exchange process (Vargo & Lusch, 2004). The shift is leading to changes in the ways that customers are viewed and organizations are valued (Canina & S. Gibson, 2003; Canina, 2001; Canina, 1996; Yuyuenyongwatana, Bansal, & Ellis, 1997). This change could lead to a more accurate valuation of hospitality organizations by investors and underwriting firms during acquisitions and initial public offerings. The valuation process is proposed to have changed from the value being defined by the producer in terms of exchange value in to the value being determined by the consumer based upon the value in use of a service. As hospitality firms can have strong value propositions, this should lead to a more accurate estimate of risks associated with hospitality organizations by investors.

Although these findings are noteworthy, additional research is needed in several areas. First, inventories such as the one developed by McBride may assist managers in hiring, training, and retaining individuals most likely to provide excellent customer service. Additional research—including a confirmation of the present study—is needed to understand the usefulness of such inventories (Buckley, Carraher, Carraher, Ferris, & Carraher, 2008; Carland, Hoy, Boulton, & Carland, 1984).

Second, although the present study suggested that biodata could be useful in predicting customer service-orientation in four nations, its applicability in many other countries remains inconclusive. Cultural differences such as those that exist between European, African, and Asian nations could draw the conclusions of this study into question in other cultural contexts (Carraher, 2005; Carraher & Carraher, 2006; Carraher, Sullivan, & Carraher, 2005; Jusoh & Parnell, 2008).

Third, this study supports the usefulness of McBride's biodata instrument among core employees in entrepreneurial retail establishments. As such, the potential influence of organizational size or organizational level on the link was not addressed. Further research is needed to assess the extent to which organizational size may be a key concern (Carland, Hoy, & Carland, 1988; Keiningham, Aksoy, Daly, Perrier, & Solom, 2006; Parnell & Menefee, 2007).

Fourth, this study assumes a common interpretation of customer service orientation across cultures. Although this appears to be true (Carraher et al. 2005), some differences between service expectations in different nations likely exist as appears to be the case with the construct of customer service itself across time (Carraher, Franklin, Parnell & Sullivan, 2006. Further research should

examine the utility of biodata within this framework. It is also likely that other factors, in addition to personality, may influence service-oriented performance. Plethora variables, including general cognitive abilities (Carland & Carland, 1990; Carraher, 1991; Sethi & Carraher, 1993; Carraher & Buckley, 1996; Sturman & Carraher, 2006), motivational levels (Buckley, Mobbs, Mendoza, Novicevic, Carraher, & Beu, 2002), workplace values (Carraher, Carraher, & Whitely, 2003; Carraher, Sullivan, & Crocitto, in press), expectations, (Buckley, Fedor, Veres, Wiese, & Carraher, 1998) and occupational interests (Carraher & Carraher, 2005), may influence an individual's customer service levels and future research could involve examining their potential relationship.

Finally, given the results of our current study, research should be performed which would examine what might cause the construct of customer service to change from peak to non-peak seasons. One possible explanation may be that due to differing levels of employee involvement in the service delivery process during peak and non-peak seasons customer service might truly be different depending on the involvement of the employee and the customers in the process (Guy, 2003; Mascarenhas, Kesavan, & Bernacchi, 2004).

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A NATIONAL SURVEY: AN EXAMINATION OF ENTREPRENEURSHIP CENTRES IN PAKISTAN

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ABSTRACT

This study is conducted to perform an in-depth analysis of Entrepreneurship Centres (ECs) in Pakistan and to investigate the issues pertaining to the growth and effectiveness of ECs in Pakistan. Furthermore, to establish what needs to be done in order to improve the performance of existing centres. This two-part study looks at the characteristics of the ECs and then examines the differences between formal ECs and informal ECs. The findings indicate that both the formal and informal ECs are in growth phase. The findings of this study will assist students, faculty, staff, administrators, heads, and other stakeholders to understand strengths and weaknesses of Entrepreneurship Centres (ECs) in Pakistan.

KEYWORDS: Entrepreneurship, Innovation, Entrepreneurs, Business Plan, Formal Entrepreneurship Centres, Informal Entrepreneurship Centres

ENTREPRENEURSHIP EDUCATION

According to Minniti, Bygrave and Autio in 2005 entrepreneurship develops in those countries, which have high educational endowments. Therefore, increased investment in entrepreneurial educational infrastructure creates economic values in the society.

Katz highlighted history of Entrepreneurship education in the world in 2003. In his study he also included economic and agricultural literature of 1876. In its true form Entrepreneurship education was started in 1970s. University of Southern California launched the first graduate and undergraduate concentration in entrepreneurship in early 70s.

Katz in 2003 and 2004 said that the increasing prominence of entrepreneurship and related fields (small and family business, corporate entrepreneurship, and so on) can also be seen in the significant rise in the number of endowed positions (chairs or professorships) in entrepreneurship

and related fields at colleges and universities, from the first one in 1963, the second in 1975, to 25 in 1987. Non-U.S. positions grew from four in 1991, to 34 in 1999, and to 158 in 2003, for a worldwide total of 563 positions.

Research of Solomon, Weaver, and Fernald in 1994 shows that by the early 1980s, over 300 universities were reporting courses in entrepreneurship and small business and by the 1990s that number grew to 1,050 schools.

ENTREPRENEURSHIP CENTERS

Many development institutions are experimenting to promote entrepreneurship as a way to help individuals. The World Bank and the United States Agency for Development (USAID) have created their own Small and Medium Enterprise divisions to provide funding and entrepreneurial training in developing nations (USAID, 2005; World Bank, 2003). America has promoted entrepreneurship and innovation in the country which has made it economically great.

In Cali, Colombia, Centre for Entrepreneurship Development-ICESI (CDEE-ICESI) with the support of university community works to promote entrepreneurial culture by providing new enterprise development, and entrepreneurial education. In Ahmedabad, India, Centre for Innovation, Incubation and Entrepreneurship (CIIE) offers incubation support to businesses.

In Pakistan, one of the entrepreneurial initiatives in academia is Institute of Business Administration (IBA) Karachi, where Centre for Entrepreneurship is established in 2006 for training to set up new businesses. LUMS Entrepreneurship & SME Centre in Lahore has been developed to build an entrepreneurial culture in the country and to support entrepreneurs and SME's for future growth and prosperity of Pakistan.

In the corporate sector the initiatives in Entrepreneurship are also emerging and some of them are as follows: In Karachi, Shell Tameer program has helped about 27000 young entrepreneurs through workshops, seminars and meetings. The Indus Entrepreneurs (TiE) is a global non-profit organization that promotes entrepreneurship.

Despite the enormous growth of entrepreneurship education throughout the world, no research exists on the current state of entrepreneurship centres in Pakistan. The purpose of this descriptive study is to perform a more in-depth examination entrepreneurship centres throughout Pakistan. This study on entrepreneurship centres in Pakistan will provide an in-depth analysis of entrepreneurship centres and their impact in Pakistan.

The results obtained from this study will be used as recommendations to those formal and informal enterprises and institutions that want to excel in the field of entrepreneurship.

LITERATURE REVIEW

Kuratko in 2005 conducted a study in which he found that the number of colleges and universities that offer courses related to entrepreneurship has increased greatly from a very few courses in 1970s to over 1,600 in the year 2005.

Finkle, Kuratko and Goldsby (2006) conducted a research in which they performed an in-depth analysis of 146 entrepreneurship centres across United States. They found that top-ranked centres were richer in terms of endowed chairs as compared to non-ranked centres. Top-ranked centres also had an academic advantage over non-ranked centres that they were offering more comprehensive graduate programs in Entrepreneurship. In short, top-ranked centres were provided with more resources and professionals in the field of entrepreneurship.

Upton in 1997 performed a research on Entrepreneurship Centres. The study was named as “Successful Experiences of Entrepreneurship Centre Directors”. She performed a detailed analysis of nine entrepreneurship centres. As a result of this study she developed a list of best practices for starting, directing, funding, managing, and marketing each entrepreneurship centre.

Sandberg and Gatewood (1991) examined research concentration, budgeting, financial resources, and constituents for entrepreneurship centres. Pfeffer (1972) and Pfeffer and Salancik (1978) found that larger organizations have larger pools of resources that can be used to gain control over the entities of their environment, which mediate critical resources.

Other than the studies just mentioned, there is little knowledge to be generated from the literature regarding entrepreneurship centres. Given the lack of research in this area and the importance of entrepreneurship centres in today’s world, we surveyed the entire population of entrepreneurship centres (72) in Pakistan. To date, this is the largest sample of centres ever examined in Pakistan.

We took the entire population of Entrepreneurship Centres (ECs) known to us for the survey. The entire population consisted of 72 ECs located in Pakistan. The list of centres was obtained from Higher Education Commission, Islamabad, website on Entrepreneurship Centres, personal references and an in-depth search of websites.

The Survey forms for formal and informal ECs were designed separately. The survey form for formal ECs consisted of 22 items whereas the survey form for informal ECs consisted of 21 items and took respondents, on average, about 15 minutes to complete. The survey form was developed through the authors and was pre-tested with Heads of 7 ECs (2 formal, 5 informal). Appropriate changes were made based on the comments of the pretest group. Among 72 ECs 65 survey forms were sent to Informal ECs and 7 survey forms were sent to Formal ECs. We received responses from 25 program heads—20 from informal ECs and 5 from formal ECs—for a response rate of 34.7% %.

For this study we define formal EC as degree/diploma awarding institutions having a centre for entrepreneurship or academic curriculum in entrepreneurship or faculty that performs research

in field of entrepreneurship. Furthermore, has external out reach activities. For the purpose of this study, an entrepreneurship centre is considered formal EC if it is listed on Higher Education Commission, Islamabad. The informal ECs are the centres that provide financial and technical guidance and assistance for business start-ups and business growth to promote entrepreneurial culture in the country .The study did not include small business development centres. In the study the word participant is used for students who are taking course(s) in Entrepreneurship and the word client is used for an Entrepreneur who seeks guidance and assistance from informal ECs.

In this descriptive study, we broke down our sample into two categories: (1) Mean for formal ECs; and (2) Mean for informal ECs to examine the differences between the formal ECs and the informal ECs.

A. PROFILE OF ENTREPRENEURSHIP CENTRES

Average Age

Average age of formal ECs is 6 years with a minimum age 1-4 years and maximum age 9-12 years. On the other hand, average age of informal ECs is 4 years with a minimum age 1-4 years and maximum age 9-12 years. There is a significant difference of 2 years in average age of formal and informal ECs respectively.

Experience of Heads of ECs

The average tenure of association of heads with their formal ECs is 3 years. The average tenure of association of heads with their informal ECs is found to be 5 years with the minimum tenure 1-4 years and a maximum tenure 9-12 years. There is a significant difference of 2 years in average tenure of association of heads of formal and informal ECs respectively.

OBJECTIVES AND SERVICES OF ENTREPRENEURSHIP CENTRES

Objectives

In formal ECs, 71% have objective to enhance /impart education, and 29 % to establish business incubators. Therefore the prime objective of formal ECs is to enhance /impart education. In informal ECs, 36 % have the prime objective to provide trainings, 33 % to provide business support, 11% to raise funds, 11% to commercialize the research, 6 % to develop business incubators and 3 % of the informal ECs have the objective to promote youth enterprises.

Internal and External Activities of Formal ECs

Case studies are the most common internal activities among 25% of the formal ECs. 18.75% of the formal ECs are involved in the internal activities of Journals/Publications, 18.75% in Business Plan Competition, 18.75 % in Student Clubs and 18.75 % of the formal ECs are also involved in the internship programs. The most common external activities of the formal ECs are Seminars/Workshops (31.25 %) and Guest Speakers (31.25 %). The least common external activities of formal centres are Executive education (18.75 %) and incubation services (18.75 %).

Services Offered by Formal and Informal ECs

The most common undergraduate course is Introduction to Entrepreneurship (66.67 %). The least common undergraduate courses are Entrepreneurial growth (16.66 %) and Business Plan Development (16.67 %).

The most common entrepreneurial services offered by informal ECs are Trainings/Workshops (20 %) and Business Support Services (20 %) followed by Business Plan Development (17.14 %) and Feasibility development (17.14 %). The least common entrepreneurial services offered by informal ECs are of Micro Financing (11.42 %) and Exhibitions and Fairs (11.42 %). Some of the informal ECs are also providing Technology up gradation services (1.42) and office space facility (1.42 %) to the entrepreneurs.

The informal ECs in Pakistan provide entrepreneurial assistance to different levels of business operations. Informal ECs are mainly providing informal entrepreneurial services to SMEs (38.46 %). The informal centres are also significantly providing services to micro finance (30.76 %) and Cottage industries (30.76 %) level of business operations.

RESOURCES

Subscription of Entrepreneurship Journals

Most of the formal ECs have a subscription of 4-6 Entrepreneurship journals but some of them also have a subscription of 7-9 journals. The percentage of subscription of 4-6 Entrepreneurship journals (60 %) is higher as compared to 7-9 subscriptions (40 %).

MoUs/Agreements of Informal Ecs

Most of the informal ECs have signed 4-6 MoUs/agreements with other organizations but some of them also have signed 1-3 MoUs/agreements. There are only two informal centres in Pakistan, which have signed maximum number of MoUs/agreements i.e. 7-9 (10 %). The percentage

of 4-6 MoUs/agreements (60 %) is higher as compared to 1-3 MoUs/agreements (30 %). The least percentage of MoUs/agreements is 7-9(10 %).

Faculty of Formal ECs

The average number of permanent faculty members in the formal ECs is 3. The average number of visiting faculty members at formal ECs is also 3.

Employees of Informal Employees

The average number of employees at informal ECs is 15 employees with the minimum number of 1-5 employees and maximum number of 11-15 employees. Some of the informal ECs have significantly 36-40 employees, which is an exceptional case. The percentage breakdown shows that 30 % informal centres have 1-5 employees, 30 % have 6-10 employees and other 30 % have 36-40 employees. The remaining 10 % centres have 11-15 employees.

Qualification of Faculty in Formal ECs

Among the formal ECs, average number of faculty members with PHD/MS in Entrepreneurship area is 1. Most of the formal ECs (60 %) do not have any faculty member with PHD/MS in Entrepreneurship area but only 40 % of the centres have 1-5 faculty members with specialization in Entrepreneurship.

Among the formal ECs, the average number of faculty members with MBA in Entrepreneurship area is 1. Most of the formal ECs (60 %) do not have any faculty member with MBA in Entrepreneurship area but only 40 % of the centres have 1-5 faculty members with specialization in Entrepreneurship.

Qualification of Employees in Informal ECs

The average number of employees in informal ECs with PHD/MS in Entrepreneurship area is 1. The 50 % of the informal ECs do not have any faculty member with PHD/MS in Entrepreneurship area and 50 % of the centres have 1-5 faculty members with specialization in Entrepreneurship. The average number of employees in informal sector with MBA in Entrepreneurship area is 2. Most of the informal ECs (80 %) do not have any faculty member with MBA in Entrepreneurship area but only 20 % of the centres have 1-5 faculty members with specialization in Entrepreneurship.

Participants/Clients of ECs

The formal ECs had enrolled average number of 126 participants in their Entrepreneurship Programs last year. The average number of clients enrolled in informal ECs is 110 clients. The percentage breakdown shows that 40 % of the informal ECs enrolled 1-50 clients, 30 % enrolled 201-250 clients, 20 % informal ECs enrolled 51-100 clients and only 10 % informal ECs enrolled 151-200 clients. It demonstrates that most of the informal ECs enrolled 1-50 clients in their Entrepreneurship programs last year.

Sources of Funds

The main sources of funds for the financial operations of formal ECs are trainings, workshops and grants. The percentage breakdown shows that 33.33% of the formal ECs generate funds through trainings, 33.33% through workshops and 33.33% through grants.

Among the informal ECs, 29.6 % generate funds through grants, 22.2 % through donations, 14.8 % through trainings, 14.8 % through workshops, and 14.8 % through business support programs. The least common sources of funds for informal ECs are the deposits of the government and local bodies (3.7 % informal ECs).

LEGAL STATUS AND ENTREPRENEURIAL INITIATIVES

Ownership of ECs

All the formal ECs are private institutions. The 50 % of the informal ECs are public institutions, 45 % are private and only 5 % centres have public private ownership.

Status of ECs in Their Respective Organizations/Institutions

All the formal ECs exist in the Department of Management in terms of their presence in institutions. On the other hand, 70 % of the informal ECs exist as an independent department, 25 % in social welfare department and only 5 % are working in the capacity of Training Wing in terms of their presence in the organization.

Legal Status

Regarding the legal status of formal ECs all the formal ECs are listed with Higher Education Commission, Islamabad because the primary purpose of formal ECs is Academics. On the other

hand, most of the informal ECs are non-profit organizations (60 %) and govt. funded programs (20 %) but others are trusts (10 %), and for profit (10 %) organizations.

Awareness about Entrepreneurial Initiatives in the Country

All the formal ECs are aware of the initiatives of HEC, Islamabad regarding Entrepreneurship centres (ECs). On the other hand only 70 % of informal ECs are aware of the initiatives of the government regarding Entrepreneurship Centres while 30 % of informal ECs are not aware of the initiatives of the government regarding ECs.

Conferences on Entrepreneurship

All the formal ECs have attended 5 conferences on the average, which were held in the domain of Entrepreneurship. The informal ECs have attended 3 conferences on the average regarding Entrepreneurship. The percentage breakdown shows that 40 % of the informal ECs have attended 1-3 conferences, 30 % informal ECs have not attended any conference, 20 % have attended 4-6 conferences, and only 10 % of the informal ECs have attended conferences in the domain of Entrepreneurship.

Workshops on Entrepreneurship

All the formal ECs have attended 5 workshops on the average, which were held in the domain of Entrepreneurship. On the other hand, informal ECs have attended 3 workshops on the average regarding Entrepreneurship. The percentage breakdown shows that 40 % of the informal ECs have attended 1-3 workshops, 30 % ECs have not attended any workshop, 20 % have attended 4-6 workshops, and only 10 % of the informal ECs have attended (10-12) workshops in the domain of Entrepreneurship.

ADMINISTRATION OF AN ENTREPRENEURSHIP CENTRE PROBLEMS AND CHALLENGES

Main Responsibilities of Heads of ECs

The main responsibilities of the heads of formal ECs are management of professional development services (33.33 %), conducting trainings and workshops (33.33 %) and undertaking research projects (33.33 %). All these responsibilities of the heads are equally common among all the formal ECs.

The main responsibilities of the heads of informal ECs are program evaluation, fundraising and exploring new resources for their informal Entrepreneurship Centres. Program evaluation is most common responsibility (38.46 %) followed by exploring new resources for centres (32.69 %). The least common responsibility of heads of informal centres is fundraising (28.84 %).

Major Issues Faced by ECs

All the formal ECs are equally facing the problems of funding (33.33 %), creating awareness about Entrepreneurship among masses (33.33 %), and finding qualified faculty to strengthen and expand their entrepreneurial academics(33.33 %). On the other hand, the biggest issue faced by informal ECs is to create awareness about entrepreneurship among the masses (32.78 %) followed by getting recognition in the society in the domain of Entrepreneurship to attain national entrepreneurial status (24.59 %). Some of the informal ECs are also facing the funding problems(22.95%) and recovery of funds and managing follow ups(19.67 %).

CONCLUSION AND IMPLICATIONS

This study fills a gap in Entrepreneurship research by surveying the largest number of Entrepreneurship Centres (ECs) in Pakistan ever attempted and obtaining in-depth information about the characteristics of these centres. This descriptive study breaks down the sample into two categories: formal ECs and Informal ECs.

Formal ECs on average are 2 years older. The heads of Informal ECs on average are 2 years more experienced as compared to the heads of formal ECs. There is a significant difference between the objectives of formal and informal ECs. The academic component drives the formal ECs whereas the trainings, fundraising and business support component drives the informal ECs.

Among the internal activities of the formal ECs, they concentrate more on case studies as compared to other internal activities. On the other hand, the external activities of formal ECs include organizing seminars/workshops to create awareness about entrepreneurship and arranging resource persons and guest speakers to promote Entrepreneurship education.

Introduction to Entrepreneurship, which is the basic course, has the highest percentage among the undergraduate courses being offered in all the formal ECs of the country. On the other hand, the informal ECs are providing the primary services of Trainings/workshops, business support services, and business plan development. Moreover, informal ECs are primarily focusing on SMEs to promote entrepreneurial culture in the country. The Entrepreneurship academics component drives the formal ECs and Business Support Services (other than academics) component drives the informal ECs.

The average number of subscriptions of Entrepreneurship Journals for the formal ECs is 6. The average number of Memorandums of Understanding/agreements signed by informal ECs with other organizations to support their initiatives is 4.

There is no significant difference regarding the number of permanent and visiting faculty members in the formal ECs. But if we make a comparison between the number of faculty members and staff in formal and informal ECs we find that there is a significant difference of 10 more employees on the average in informal ECs. Both the formal and informal sectors have a very low number of employees who are specialized in the field of Entrepreneurship. The formal ECs on average have 15 more participants as compared to the informal ECs.

There is no significant difference in the main sources of funds for both the formal and informal ECs of Pakistan. Most of the formal as well as informal ECs generate funds mainly through trainings, workshops and grants for their financial operations.

It is found that all the formal ECs are private institutions irrespective of informal ECs 45 % of which are only private organizations.

There is significant difference between formal and informal ECs in terms of their presence in the organization. All the formal ECs exist in Department of Management and most of the informal ECs exist as Independent Departments.

There is a significant difference in the legal status of formal and informal centres. All the formal ECs are listed with HEC, Islamabad with the primary purpose of academics. Most of the informal ECs in Pakistan are non profit organizations and govt. funded programs but with the purpose of providing entrepreneurial services other than academics (*Tables 9e and 9f*). Most of the informal ECs exist as Social Entrepreneurial Ventures (SEVs) in the country. SEVs are of three types. They are non-profit organizations entering into business to finance their social service operations (Boschee, 1995; Leadbeater, 1997; Mort *et al.*, 2003). They can also be for-profit ventures that define their mission as having a double bottom line (Dees, 1998b; Pomerantz, 2003). Finally, they can be cross-sector SEVs, collaborative initiatives engaging non-profit, for-profit and/or public organizations to solve particularly challenging social problems (Bornstein, 1998; Kanter, 1999; Waddock and Post 1991).

All the formal ECs are aware of the initiatives of HEC, Islamabad regarding Entrepreneurship centres (ECs). On the other hand only 70 % of informal ECs are aware of the initiatives of the government regarding Entrepreneurship Centres

The formal ECs have on the average attended 3 more conferences and workshops on the average as compared to informal centres which may give them an advantage in getting more awareness regarding Entrepreneurial initiatives and issues in Pakistan.

There is a significant difference in the responsibilities of the heads of the formal and informal Entrepreneurship Centres because of the basic difference in their primary objectives and services. The heads of formal ECs have to monitor and evaluate academics whereas the heads of informal

centres have to monitor and evaluate the activities of their Entrepreneurship Programs and to manage resources along with exploring new resources for their centres.

The main issues faced by both the formal and informal ECs are almost the same. Both the sectors are facing the challenges of creating awareness about Entrepreneurship in Pakistan and lack of funds for entrepreneurial initiatives. But the informal ECs are additionally facing the challenges of getting recognition for attaining national entrepreneurial status and recovery of funds.

In a nutshell, we can say that for formal ECs the heads' perceptions of measures of success for a centre is courses offered, number of students in the program student evaluations, and funding generated. They put Entrepreneurship education first. For informal ECs the heads' perception of measures of success for a centre are recognition, funding generated and clients enrolled in Entrepreneurial Programs. The findings of the study exhibit that the number of both formal and informal ECs has grown tremendously in the last five years from none to about 72 ECs all across Pakistan. All the ECs whether formal or informal are in their initial phases of establishment and so many challenges are hampering their growth in the country. The study highlights that the biggest factor to hamper the growth of ECs in Pakistan is lack of vision. At the same time they are seriously facing the biggest challenge of lack of resources.

RECOMMENDATIONS

All the ECs, whether formal or informal lack vision to set the direction for achieving their entrepreneurial goals. The entrepreneurship professionals should be produced in order to manage, direct and grow these formal and informal ECs of Pakistan. The entrepreneurship experts will be able to develop the vision for ECs in Pakistan to find the right direction for Entrepreneurship Field. The heads of Informal ECs can also help the formal centres in building up their academic programs of Entrepreneurship.

The specialization courses of Entrepreneurship are not offered in formal ECs. There is a strong need to offer specialization and diploma courses in the field of Entrepreneurship in all the formal ECs.

Lack of funds is also a serious issue faced by both the formal and informal ECs, which contribute towards slowing their pace of development. Both foreign agencies and local government should not only ensure channels to support and assist ECs but they should also specify the evaluation and monitoring of Entrepreneurial initiatives to measure and enhance their growth. The more comprehensive management courses should be offered in formal ECs and more elaborated Entrepreneurial management skills should be focused by informal ECs to create effective Entrepreneurial management in these ECs.

For formal ECs, the issue of funding to carry out the financial operations can be solved by opting for venture capital and Angel funds to create a pool of financial resources for strengthening and expanding their academic activities. The formal ECs can overcome the problem of finding the

qualified faculty by hiring foreign qualified faculty members with specialization in Entrepreneurship. Formal ECs can also create networking with informal ECs to acquire the resource persons for academics. The heads of the centres should assign more responsibilities to their faculty members in order to promote Entrepreneurial culture in the country. The third issue faced by formal ECs is about creating awareness of the Entrepreneurship among masses. This issue can be resolved by involving electronic and print media. The government can also play its role by organizing conferences, workshops/trainings at the national level in the domain of Entrepreneurship.

On the other hand, the informal ECs can resolve the issue of funding by opting for more extensive Entrepreneurial services like trainings and workshops. They can also generate funds by providing resource persons to formal ECs. Moreover, there is a strong need in the country to establish venture capital, Angel funds and Micro Finance institutions. The microfinance cooperatives should be developed and promoted in the country. They act as a financial institution by offering loans and savings as well as collecting repayments with interest high enough to be profitable; and they also create cooperative groups among borrowers in order to ensure payment and increase solidarity and social ties (Woodworth, 1997). The government can also facilitate informal ECs by providing more funds and donations.

The informal ECs are also facing the problem of creating awareness among masses. Involving electronic and print media can create the awareness. The government can also play its role by organizing conferences, workshops/trainings at the national level in the domain of Entrepreneurship. They can explore and manage new resources, build criteria, legitimacy, and brand name recognition that are needed to attain national entrepreneurial status. The Entrepreneurship centres develop resources to achieve its goals of efficiency and improve performance (Provan 1980; Pfeffer 1973, 1972, Zald 1967; Price 1963). The survival of the EC depends on its efficiency to explore and manage resources (Finkle 1998).

The informal ECs are also facing the challenge of getting recognition to attain national entrepreneurial status. Revising the credit policies and managing follow-ups efficiently can solve the issue of recovery of funds.

FUTURE RESEARCH

Future research in this area should focus on development of a model for the development of successful formal and informal ECs in Pakistan. Specific variables should be considered to understand these relationships for the development of the formal and informal ECs in Pakistan.

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RECENT EVIDENCE OF SMALL BUSINESS DEVELOPMENT IN CIS TRANSITION ECONOMIES

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ABSTRACT

This study investigates the role of small business development (SBD) in transitional economies of Commonwealth Independent States (CIS) and makes economic and financial recommendations for international policymakers. A range of current SBD research that examined entrepreneurship from an economic perspective was reviewed. An economic research paradigm was developed to provide a macro view of CIS countries and then it was applied to Kazakhstan in Central Asia. In general, factors that enhance SBD include improving institutional environments, increasing credit availability and promoting competition. Specifically in Kazakhstan, a survey of entrepreneurs and small business owners was conducted to determine how SBD creates markets and how it transforms lives. To enhance and sustain economic stability and reduce reliance on state-owned natural resource industries, CIS should implement alternative development strategies that promote SBD. Selected policy and practical implications are identified which facilitate SBD through initial investment funds that create capital formation and credits.

INTRODUCTION

Small business development (SBD) is essential in economic transformation from centrally planned economies to market-oriented economies among the Commonwealth Independent States (CIS) of Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine and five Central Asia countries: Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan (associate member). The nature of SBD under these transitional economic conditions differs somewhat from that of developed Western market economies. Financial and capital market conditions are generally more stable and favorable for SBD in western market economies.

There recently has been a proliferation of small private businesses in the CIS, attributable mainly to promotion and assistance given to the small business sector by the governments and foreign agencies. These foreign development agencies include the United States Agency for

International Development, World Bank, International Monetary Fund (IMF), United Nations Development Program, European Bank for Reconstruction and Development, Asian Bank for Reconstruction and Development, and other non-governmental organizations. Promotion and assistance generally take the form of developing venture industrial parks to alleviate location and infrastructure problems, rather than in the form of promoting institutional environments such as tax and regulatory authorities and credit supports. Institutional environments are important ingredients for promoting and developing the private business sector.

Many countries in the CIS have captured worldwide attention with the speed and magnitude of their small business development during the last decade as a result of the considerable assistance from foreign development agencies. CIS are the largest exporters of their natural resources (oil and gas energy industries) that contribute the largest share of economic growth. However, these countries have been faced with new challenges in recent years due to the rise in wages, problems in exploring sufficient green fields, pressures of environmental protection and inadequate infrastructure. The oil and gas industry alone cannot be the sole impetus or driving force for long-term sustainable economic development. The ability to promote and develop additional driving forces will be key to sustaining economic growth.

LITERATURE REVIEW

Entrepreneurship is the key to SBD in transition economies. This section classifies current literature in term of determinants that influence entrepreneurship.

Institutional environment

Miskinis and Deksnys (2006) emphasized the critical role of legal and institutional environment for developing small- and medium-sized business in Lithuania. According to Manolova et al. (2007), private entrepreneurs in transition economies compensated for the lack of institutional support through an embedded relational exchange network.

Culture

Todorovic and McNaughton (2007) considered visionary entrepreneurship as a principal economic driver in developing economies, and presented the notion of disequilibrium where the imbalance between the role of culture and resource availability was regarded as an impeding force of entrepreneurship in transition economies. The study of attitudes toward enterprising culture in Russia by Robinson, Ahmed, Dana, Latfullin and Smirnova (2001) suggested that differences in attitudes tend to stratify along the lines of generations (see also Kusnezova, 1999). Morrison (2000) found a significant relationship between entrepreneurship and cultural specificity through a cross-

country study. A deeper understanding of the symbiotic relationship between entrepreneurship and culture was established. Her latest study found that understanding the entrepreneurial process in family business is best served by reference to the culture, organization and industry within which entrepreneurs were embedded (2006).

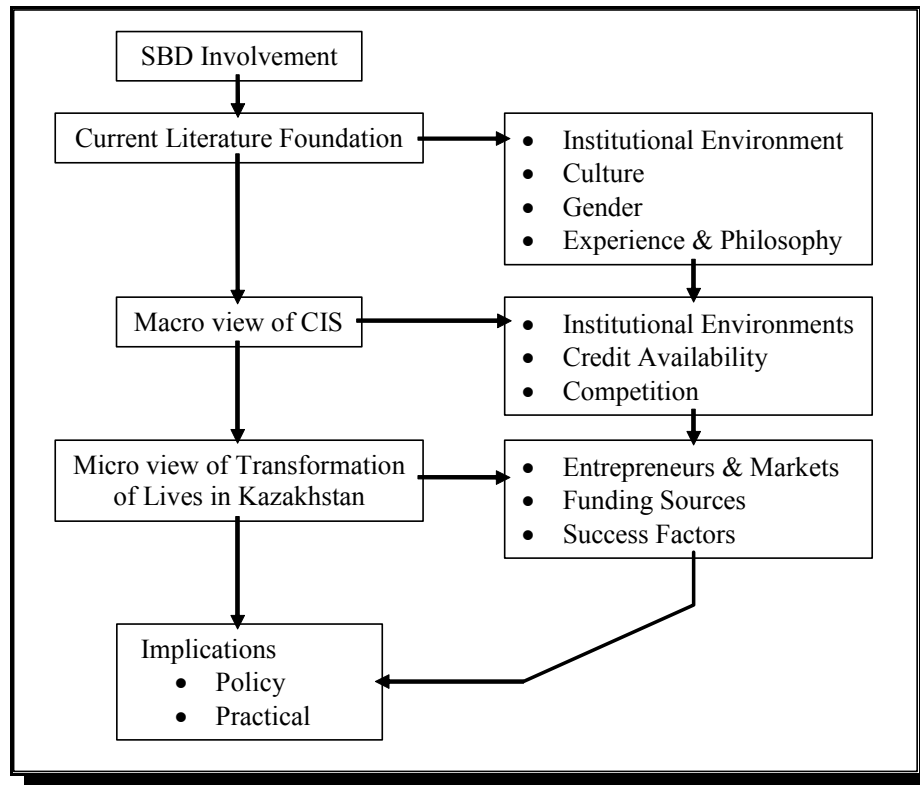
Gender

Hisrich et al. (2006) investigated the factors that enabled women to become entrepreneurs in the Ukraine. These factors included personal characteristics, the reasons for venture, the business and operation characteristics and problems in starting or maintaining venture. In the study of the institutional environment under which Vietnamese female entrepreneurs had to operate, Scheela and Van Hoa (2004) found that women entrepreneurs in Vietnam made significant use of networking with government officials in order to develop and build their new business ventures.

Experience and philosophy

Batjargal (2005) stated that industry experience and entrepreneurial versatility, defined as an ability to predict resource needs, had positive impact on a firm's revenue growth in Russia. Pittaway (2005) examined the philosophies underlying economic studies in entrepreneurship and how they contribute to an understanding of entrepreneurial behavior. Some philosophies could impair the development of theory. Using a wider range could help improve the value of research. The paper presented a structured approach to understanding some of the differences that underline economic policy supporting the promotion of enterprise.

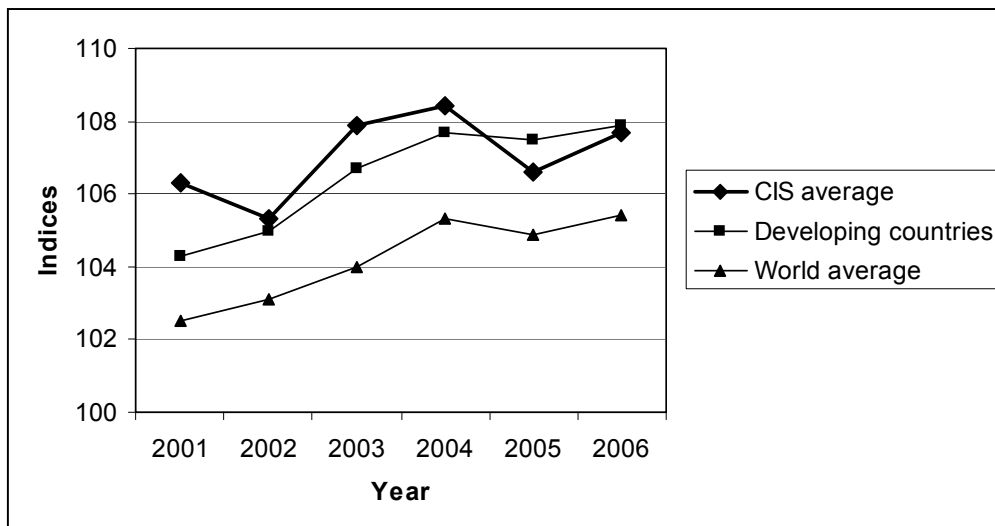
The determinants in the aforementioned studies are incorporated in this study. A wider range and a structured approach are employed in the research paradigm shown in Figure 1. In addition to understanding difficulties of entrepreneurship and private business startups, entrepreneurs and small business firms in transition economies may also have to cope with an institutional environment that is usually unpredictable and frequently changes in a short period of time. The institutional environment is comprised of the social, political, and legal aspects of the environment in which an organization is founded and operating. The institutional environment also is powerful in shaping organizational actions by formulating and imposing government policies, behavioral standards, and social expectations even though it does not directly affect the technical tasks of organization performance.

Figure 1: Research Paradigm

THE EFFECT OF SBD INVOLVEMENT

During 1990s the economies of CIS were dominated by state-owned agriculture, mining, and oil and gas energy industries with few exceptions. The small business supplied only simple consumer products. Today the economies are much more diversified with private market creation in manufacturing, communications and transport, financial services, retailing and business services. CIS economies have experienced one of the most rapid structural transformations ever to occur due to SBD involvement.

The 2006 per capita income in most CIS is less than US\$ 2,000, except in Russia (US\$ 4,460), Kazakhstan (US\$ 2,930), and Belarus (US\$ 2,760). The good news is that economic growth rates in CIS are on average higher than those in other developing countries. From 2001 to 2006, the average annual growth rate was 7.0 percent in CIS, 6.5 percent in developing countries and 4.2 percent in the world (Figure 2).

Figure 2: GDP Growth Indices

Source: International Monetary Fund (2007), *World Economic Outlook*.

GDP grew faster during 2002 to 2004 due to high oil and gas prices in the world market. Besides oil and gas export, the SBD has created markets that have significant economic impact on growth in CIS. Based on existing trends, at least three countries- Armenia, Azerbaijan, and Kazakhstan- can look forward to the possibility of catching up with the middle-income countries within the next decades. These countries have per capita income growth rates more than 3 percentage point higher than the CIS average. CIS must maintain the high volume of SBD investment in order to sustain such high growth rates.

FACTORS ENHANCING SBD IN CIS

(1) Improving Institutional Environments

Potential investors and entrepreneurs in CIS face complex regulations, licensing complications, and other institutional obstacles that are often unclear and usually inconsistent with the rules commonly practiced in the rest of the world. This environment often deters investors and entrepreneurs from participating in investments because of unnecessarily high operating costs. Most entrepreneurs in CIS spent close to 35 percent of their time solving problems related to governmental regulations (World Bank 2007).

Table 1: Business Environment In The CIS

Country	Starting A Business Time (Days)	Dealing Licenses Time (Days)	Registering Property Time (Days)	Credit Information Index (0-6)	Investor Protection Index (0-10)	GNI Per Capita (2006US\$)
Armenia	24	112	4	3	5	1470
Azerbaijan	53	212	61	4	4	1240
Belarus	69	354	231	3	3	2760
Georgia	16	137	9	3	4	1350
Kazakhstan	20	248	52	4	5	2930
Kyrgyz Republic	21	218	8	3	6	440
Moldova	30	158	48	0	4	880
Russia	28	531	52	0	5	4460
Tajikistan	67	187	37	0	1	330
Ukraine	33	242	93	0	3	1520
Uzbekistan	29	287	97	0	4	510
CIS average	35	244	63	2	4	1626
Singapore	6	129	9	4	9	27490
Notes Turkmenistan discontinued permanent membership as of August 26, 2005						
Source World Bank, Doing Business 2007						

As shown in Table 1, it took 35 days on average to start a business and about 244 days to acquire licenses in CIS, compared with 6 and 129 days, respectively, for Singapore, the most business-friendly economy in the world. There are various options to improve institutional environments for doing business in the region, such as a reduction of excessive regulation, simplifying licensing requirements, and removing bureaucratic barriers that impede the normal process of business investments. In addition, a well functioning legal system that supervises the economic process, and ensures transparency and equal justice is also important in promoting investment and economic growth.

(2) Increasing Credit Availability.

In several CIS, governments remain the dominant players in the banking system by owning a major proportion of capital equity in these banks. Frequent failures of these state-owned banks to enforce collateral rights discourage financial intermediaries from lending to private businesses

that do not have long borrowing records or political connections. The low liquidity levels of capital market as well as of primary and secondary bond markets force potential real investors into the whims of the banking system. As a result, commercial banks become powerful both economically and politically. Furthermore, credit information in many CIS is limited and has not been applied consistently when available. The average credit information index of CIS is 2 while Singapore is 4 (Table 1). In particular, five countries including Russia, Moldova, Tajikistan, Ukraine, and Uzbekistan have no credit information sharing. Obtaining credit is most limited for small businesses and women entrepreneurs in CIS. Most small businesses and entrepreneurs are more likely to have loans from financial institutions in countries with stronger legal rights.

According to 2007 IMF report in Table 2, from 1997 to 2006, the average investment rate in CIS (19.4 percent) is lower than developing countries (25.4 percent) and the world (22.0 percent). The investment rate in CIS has not increased substantially, even in the foreign direct investment-friendly policy period (after mid-1990s) and in the World Trade Organization membership negotiation period (until mid-2000s). Increasing capital liquidity in CIS will help entrepreneurs and private small businesses raise needed capital to finance their potential business ideas, and thus will have a positive effect on business start-ups and productive investments in the region.

(3) Promoting Competition.

Despite recent efforts to liberalize and/or privatize the banking system, governments have protected these commercial banks from free competition by restricting entry at the local and international levels. These protective measures prevent the banks from functioning efficiently. The industrial structure inherited from the former Soviet Union contributes to a lack of international competition. In the absence of a drastic restructuring, however, privatizing the large state owned industries alone would be unlikely to improve its economic competitiveness, since the result of privatization is likely to give rise to a market with a high degree of monopoly. To promote competition, the process of privatizing state-own businesses in the CIS must be speeded up to keep pace with the growth of private business sector. SBD seems to be one of the options available for CIS to achieve national competitiveness. Moreover, most potential investors and entrepreneurs are more likely to back away from cumbersome regulatory processes. This leads to fewer entrants and less competition. In essence, reducing some regulatory processes may promote competition that leads to a highly efficient and more innovative economic system.

Year	Investment			Gross National Savings		
	World	Developing Countries*	CIS**	World	Developing Countries	CIS
1997	22.7	25.5	21	22.6	24.2	20.5
1998	22.2	24.2	15.7	22.0	22.4	14.5
1999	22.1	23.7	14.9	21.9	23.4	23.8
2000	22.5	23.9	18	22.4	25.2	31.9
2001	21.4	24	21.1	21.2	24.6	29.4
2002	20.8	24.6	19.8	20.5	25.8	26.4
2003	21.1	25.9	20.9	20.8	27.9	27.1
2004	21.9	27.2	21.1	21.7	29.6	29.2
2005	22.3	27.0	20.5	22.1	31.1	28.9
2006	22.8	27.4	20.6	22.8	31.8	28
Average	22	25.4	19.4	21.8	26.6	26
Notes * Other emerging market and developing countries ** Commonwealth of Independent States						
Source International Monetary Fund (2007), World Economic Outlook						

EVIDENCE FROM KAZAKHSTAN

SBD involvement tends to be associated with the overall process of political and social democratization which, in turn, is linked to the process of economic transition. The expansion and growth of private businesses in transition economies should contribute to further diffusion of economic power and outputs, as well as to the creation of a strong middle class which should support and enhance the economic growth.

Overall, Table 3 shows that economic growth rates continue to grow steadily, and unemployment rates continue to decline in Kazakhstan. The self-employed population has significantly increased since 1994. Small business research conducted in more advanced transition economies such as in Bulgaria (Bartlett and Rangelova, 1997) and the Czech Republic (Benacek, 1997) indicated that small business growth is conducive to high-tech development and to improved productivity levels. These elements can transform lives and economic growth.

Table 3: Economic Growth And Labor Market Indicators In Kazakhstan

Year	Economic Growth Rate (Percent)	Total Employment Index	Unemployment Rate (Percent)	Self-Employed Share In The Employed Population* (Percent)
1994		212.618	7.500	8.4
1995	-8.173	185.398	11.000	16.6
1996	0.500	178.668	13.000	24.6
1997	1.692	148.279	13.000	34.0
1998	-1.859	128.213	13.100	38.3
1999	2.692	108.529	13.500	45.1
2000	9.806	100.000	12.800	43.5
2001	13.528	103.678	10.400	42.3
2002	9.813	106.912	9.300	39.9
2003	9.291	110.416	8.800	39.4
2004	9.60	102.80	8.40	37.80
2005	9.77	101.10	8.10	36.10
2006	10.73	102.00	7.80	35.50

Sources International Monetary Fund's International Financial Statistics and *The Agency of Statistics of the Republic of Kazakhstan (2007)

SBD Involvement Transforming Lives.

A survey of 119 entrepreneurs and small business owners was conducted in late 2005 to assess how SBD creates market and how it transforms lives in Kazakhstan. A group of independent moderators who have served as the members of the Board of Directors of the Almaty Association of Entrepreneurs, and are bilingual in both Russian and English, was formed. This group performed twenty-one focus group interviews. Each focus group consisted of 6 to 7 gender balanced entrepreneurs. Their profile is presented in Table 4. These interviewees have operated small business for more than one year. After explanation of the research purpose and questions, these entrepreneurs were asked to discuss and write down their experiences and opinions related to SBD.

Age:	Percent
21-29	35
30-39	41
40+	24
Gender:	
Male	59
Female	41
Education:	
College Educated	92
Non College	8
Language of Business:	
Russian	82
Other e.g. English, Chinese, Turkish	18

The English transcript was analyzed and categorized into the following sections:

(1) Entrepreneurs and Markets.

Many of the current small businesses in Kazakhstan have been established in a market driven environment rather than through connections or with an inherited relationship from the former Soviet Union period. About 85 percent of these small business entrepreneurs have traveled to different parts of the world: Europe (Italy, German, England, Switzerland & Turkey), North America (USA & Canada), Asia (South Korea & China), and other countries in the CIS. Many of these international experiences have contributed to improvement of their business. Overall, the survey seems to indicate relationships among demographic factors, overseas travel experience, and SBD involvement in Kazakhstan. See Table 5.

Market Type:	Percent
Retail (clothes, grocery, flower, etc.)	42
Professional Business Services (travel, notary, office supplies, transportation and automotive dealership, computer and telecommunication)	36
Personal Services (restaurants, beauty salons, and repair service)	22

Market Type:	Percent	
Market Type by Gender:	Male	Female
Transportation, Automobile Dealer, Restaurant, Computer & Telecommunication Retail	68	32
Retail Stores, Travel Agencies & Beauty Salons	35	65

(2) Sources of Funding.

After its independence from Soviet Union in 1992, there were 184 banks by mid-1994 in Kazakhstan. Due to implementation of a strict macroeconomic stabilization program, stringent monetary policy, and banking structural reforms by the state, only 35 banks are currently providing commercial and corporate banking services. See Table 6.

The latest figures from the National Bank of Kazakhstan indicated that as of December 31, 2005, the 10 largest banks of the country lent out more than 58 percent of their total assets to facilitate small and medium sized business start-ups and development. These banks exemplify SBD by facilitating small business start-ups in the region. Small business owners depend on bank financial support and many borrow more than 50 percent of their total capital assets. The survey shows that small firms in Kazakhstan are 67 percent more likely to have bank loans with credit registries.

Funding:	Self/Family	Banks/Other	Family/Relatives	Other Organizations
Startup	60	40		
Post-Startup		67	25	8

(3) Success Factors.

The major problem in developing a small business is to obtain sufficient capital at a reasonable rate. Many successful small business owners have been able to obtain the needed funds either from their own resources, such as relatives, or networking with bank personnel. For other small firms, the shortage of working capital and the lack of investment capital are recurring problems. The important factors for small business success as perceived by the entrepreneurs include personal qualifications and management skills to acquire funds. Entrepreneurs who are able to muster sufficient capital to start a new business have greater potential to succeed. Many entrepreneurs, especially females, do not have the capacity to tap the available capital pool due to the stringent requirements imposed by financial institutions. A majority of the entrepreneurs believe

that they would be more successful in their small businesses if they had not been undercapitalized. See Table 7.

Respondent Selections:	Percent
Good Financial Management	92
Industry Selection & Business Expertise	88
Human Resources Management	86

POLICY IMPLICATIONS

The macro analysis of the CIS and the micro view of Kazakhstan suggest the policy measures which follow. Governments should enact policies and take actions to improve the quality of their institutional environments in order to facilitate entrepreneurial activities and SBD.

- ◆ Ensure that proper implementation of market economic legislation and investment laws at the local level are favorable for SBD.
- ◆ Promote the growth of value added and high-tech components in SBD so that the state economies can become self-sustained and less energy (oil and gas) dependent.
- ◆ Create a business-friendly institutional environment by increasing the transparency of government activities.
- ◆ Develop various financial supports and tax incentive policies.
- ◆ Improve the system of financial institutions in providing capital and credit to the small business.

PRACTICAL IMPLICATIONS

There are some successful examples of state actions, especially in Azerbaijan, Georgia, and Kazakhstan. The credit guarantee program sponsored by the governments in cooperation with commercial banks provides small business with needed incentives. However, despite these efforts, most entrepreneurs are rarely able to generate sufficient capital to cover both start-up and initial operating costs. One way to alleviate this predicament requires establishment of a venture capital system. For example, entrepreneurs in the United States (Small Business Administration: SBA, <http://www.sba.gov>) and in South Korea (Small and Medium-sized Business Administration: SMBA, <http://www.smba.go.kr>) are encouraged by and benefit from venture capital firms, small business start-up funds, small business operating funds, and multiple small business credit guarantee programs.

To complement or supplement existing commercial banks and other financial institutions to provide capital and credit to small business businesses, a joint-stock company such as “The CIS Investment Fund for SBD” should be established. This organization could incorporate international, national and regional financial institutions for improving the system of SBD in a CIS region and for stimulating investments and innovative activities. Some functions may include:

- ◆ Provide finance for medium- and long-term investments to small business firms.
- ◆ Act as a service institution for financing projects.
- ◆ Create small business credit guarantee programs.
- ◆ Serve as a financial advisor and consultant to borrowers, providing expertise on financial management.
- ◆ Ensure efficient small business management and greater transparency as well as coordination among the activities of international, regional and national development institutions.

CONCLUSIONS

In order to stabilize and reduce reliance on state-owned natural resource industries, the CIS should seek alternative development strategies targeted toward small business development. These strategies can be realized through a holistic system directed at achieving a sustainable increase in national productivity, enhancing individual-level entrepreneurship, and developing the private business sector.

Economic growth requires an attractive business climate and a competitive investment environment. While the creativity and commitment of all individuals and agents involved will result in increasing entrepreneurial activities and facilitating SBD, the conditions that enable this process to occur are affected by the social, economic, and institutional contexts. SBD in the transition economies takes a variety of forms that reflect the challenge faced by private entrepreneurs. The dominant feature influencing the nature and pace of SBD is the shortage of start-up capital, which in many cases appears to be a long application process and difficulty dealing with financial institutions such as commercial banks. In recognition of the perennial under-capitalization of the small business, governments and small business supporting agencies should develop various financial supports and tax incentive policies and programs that will enable entrepreneurs to raise sufficient capital to start and sustain business in the small business.

NOTE

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EFFECTS OF FACTORS INFLUENCING CAPITAL FORMATION AND FINANCIAL MANAGEMENT ON THE PERFORMANCE AND GROWTH OF SMALL MANUFACTURING FIRMS IN SENEGAL: RECOMMENDATIONS FOR POLICY

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ABSTRACT

This paper presents results of a survey conducted among 36 (n=36) owners of small manufacturing businesses in Senegal. Although most of these firms show promising potential for success they are threatened with some operational problems that constrains their ability to attain better results. In order for these mostly stagnated small firms to graduate into higher levels of development therefore, their need for adequate and relevant supporting infrastructures are essential. This study identified the biggest impediment facing most Senegalese small businesses to be that of limited access to sources of capital, in addition to other external conditions that affect the productive management and usage of funds. It is recommended that the government machinery, relevant establishments and business communities combine their efforts with that of entrepreneurs and create effective structures that will help ameliorate the process and conditions for effective capital formation. Taking this approach in addition to providing relevant training should enhance better management know-how for entrepreneurs and encourage the chances for progressive development of the small business sector in Senegal.

INTRODUCTION

At the turn of the 21st century, it still appears that the level of development for most small firms in sub-Saharan African countries (Francophone or Anglophone) is still very basic. Most of these firms have not progressed beyond the basic craft, promotional (Filley & Adalg, 1978) or the Artisan levels (Longenecker, et al 2003), which are characterized as firms that are not innovative, use very little capital and maintain only simple methods for management and development. Firms of this category survive by sheer tenacity and remain in business mainly by sweat equity. In addition, such firms do not conduct any form of research for development to proactively gain control of market share because they either cannot afford to do it, do not know how, or simply do not see the immediate importance of doing any research due to myopic business growth vision that they

have. Such firms would rather choose to use only simple benchmarking techniques or follow signals from other competitors when demand for similar products increases or decreases. Most businesses of this category in Senegal are seasonal in nature due to the type of products that they produce and are simply complacent as they struggle to remain in business just to earn enough money to maintain a stable means of livelihood.

Although factors influencing small firms' development and their effects are different in countries and environments, many factors have been identified by researchers as causes leading to poor performance, slow growth and development of small firms in countries. Some researchers for instance have noted that financial constraint is the most serious handicap confronting small firms in lesser developing countries especially in Africa (Cook, 2001 & McMahan, 2001). In another twist, Deakins et. al. (2002) noted assumptions made by some researchers that although inadequate financial management practices are regarded as important contributors to the causes of turbulence in small firms, little study has been done to know about the role owner-manager's approach in the evolution of strategy and associated learning in this area. Similarly, Chittenden, et. al. (1998) observed that little attention has been received from financial researchers, with regard to non-financial and behavioral factors that influence capital structure decisions.

There is therefore more to be understood about the pattern of how managers learn to adapt, develop strategies and make decisions in this area and how they are unique and different in specific environments. Relatively, limited amount of research especially has been conducted on SMEs and entrepreneurship around the African continent. This study therefore examines the role and practice of financial management decisions among small business managers and owners in terms of how they behave and cope in the Senegalese manufacturing sector. The study further investigates effects of decisions made by the entrepreneurs on the performance of their firms to grow and how they are able to remain in business in a constrained economy with limited financial resources.

Further, I argue that the wider environment and the role of culture and colonial influence have not received much attention in the study of factors influencing small businesses and entrepreneurial behavior in the context of financial management particularly in Africa. This study provides one more example of a wider and in-depth approach towards understanding the various factors influencing growth, performance and development of small firms especially in Africa. This study will therefore contribute new knowledge to small business and entrepreneurship literature.

IMPORTANCE OF STUDY

First of all, the importance of this study is justified by the fact that only has little research been done in this area. In addition, the need for African countries, whether of the Anglophone, Francophone, Lusophone, Arabs or Afrikaans background to develop their industrial and economic sectors for overall development in the age of globalization is crucial. Economic indicators show high unemployment rates and poverty amidst poor health and living standards (World Bank Reports,

2007). These kinds of problems are typical of those faced by most African countries in this era. While some countries have moved on with the technological revolution of *Nanotechnology*, other countries most of which are in Africa are still struggling at the basic levels of manufacturing. Countries of this category commonly referred to as *banana states* or *rentier regimes* mainly depend on exports of raw materials in low value added forms for revenues and then re-import even simple manufactured products made from their very own exported raw materials. This study will therefore point to where need for attention is most essential in the small business sector so that these impediments can be addressed for the way forward. The results of this study will help for consulting purposes, loans decisions, for formulating government policy and for further research to continue in this area especially in other African countries.

METHODOLOGY

This study adapts a multiple site/unit (Romano, 1989) case study approach for small firms to investigate the approaches taken by 36 small business owners and managers in Senegal to develop financial management strategies and the effects of such decisions on their business performance overtime. Discussion of the findings from this study is done in view of previous studies drawn from literature on financial management of small firms. As mentioned earlier, there is proof by Deakins and Co., (2002) and Chittenden et al. (1998) to confirm the dearth of insight that is lacking from most previous studies in this area. Furthermore, it is apparent that most of the studies done in the area of small firms financial management are not dynamic but rather static and survey based while providing little information on behavioral factors. Such studies are even more limited among lesser-developed countries (LDCs). A case study approach to the study of small firms is therefore relevant for an in-depth analysis of data for results, while providing a multi-dimensional coverage to a particular area of study (Romano, 1989).

To ensure triangulation and cross referencing of data and results, a multiple method study is conducted by using at least three levels of analysis. At the first level an observation of the practices of small firms is done in their operating environment, which is followed by an in depth painstaking interview ranging from about two to four hours with each owner/ manager of the small firms. Collected data is then interpreted using both qualitative and simple quantitative statistical methods where applicable. Review of literature is also done to compare between differences and similarities as well as the theoretical relevance of other findings to the particular area of study.

REVIEW OF LITERATURE AND DISCUSSION OF SURVEY FINDINGS

Most previous studies have not only ignored the examination of financial management approaches in third world countries like Africa, but have also overlooked the need to look at dynamic elements like innovation, influence of the environment and colonial factors, family

background, experience and traditional culture of entrepreneurs in the process. Certain managerial decisions and actions could indeed be influenced by environmental factors, such as national, societal, socio-cultural, political, economic, legal or technological (Dereskey, 2003). According to Chittenden et. al. (1998) non financial and behavioral variables such as the need for control, risk propensity, experience, knowledge and goals may be more important in influencing the capital structure of small firms at anytime among the owners of small privately held firms. Chittenden's results were derived from a study that was conducted in the greater area of Manchester in the UK. Considering the geographic location and other differences such as the level of economic development and general background of the UK (Manchester, England) and Africa (Dakar, Senegal), it should be expected that results that examine factors influencing financial decisions made by entrepreneurs on both sides would vary by comparison. It would therefore be interesting to see the unique nature of such differences that are specific from an environmental and behavioral point of view not only between the UK and Africa but also in comparison with other regions of the World.

The survey of the thirty-six small manufacturing firms in Senegal showed that the most popular source of financing is from personal savings and/or self generated profits. The reason attributing to this is not by choice but due to lack of alternatives. There are obviously limited sources from, which to generate external funding and this is a major weakness to the growth of businesses in Senegal. Furthermore, the funds that are self-generated or available from other sources are minimal to allow small businesses to grow and reach their full potential. This problem of resource paucity is also confirmed by the fact that only a sixth of the interviewed businessmen used external loans to start their companies. Among the reasons explaining for the limited number of loan beneficiaries is mainly as the respondents have said, because the process and conditions for acquiring loans in Senegal are bureaucratic, cumbersome and difficult. Most of the entrepreneurs interviewed for the study emphasized that loans are not given by compliance even when they qualify. At the core of the system by which funding opportunities are sought and obtained in Senegal is the 'connection' rather than merit method, whereby it is the relationship that someone has directly or indirectly with key personnel in relevant establishments that determines whether someone would get funded or not. In Senegal this practice is known as "*Bars-long*". As some Senegalese entrepreneurs and business students have said, "It would be very difficult for anyone start and manage a business successfully in Senegal without the *bars-long* connection". The *bars-long*, is a French terminology and translated into English means 'long-hand'. The *Bars-long* as a practice is almost institutionalized in the entire Senegalese business and economic environment. *Bars-long* has become an important determinant for going into business regardless of whether or not someone has entrepreneurial talent or idea. Of course, this method not only discourages promising entrepreneurial talents but it also denies the economy of the contributions quality entrepreneurs would have made through growth as measured by gross national product GDP.

In China the *Guanxi* or in Japan the *Kieretsu* and in the Middle east the *Wastaa* networks work in similar but different ways to the *bars-long*, where strong business networking relationships are built on the basis of friendship and affection, with mutual obligation to reciprocate favors in business related circles such as among bankers, suppliers and in the market place. However, the type of relationship networks among these countries as indicated by their GDP are more progressive and dynamic than the one in Senegal, which is mainly centered on getting access to loans alone.

In Senegal the *bars-long* system requires that someone knows somebody who is either working in a bank, is a highly placed government official or is an influential figure in the society. The use of power and influence are evident in the process of *bars-long*. Power distance according to Hofstede (1984) is the unequal acceptance and distribution of power in institutions and which is therefore determined by societies. In the Senegalese society ‘power distance’ is high and is clear that unless someone has the ability to exchange or reciprocate favors to creditors even the most promising of entrepreneurial potentials that are not ‘connected’ would be handicap by lack of capital and other investment opportunities.

The position of a *bars-long* person is to play a mediating role. This is someone who is in a strong position to serve as a conduit between the lender and creditor, especially when large sums of money is involved. The backing that an entrepreneur gets from a *bras-long* figure when applying for a loan is not necessarily seen as that of a surety for collateral or as a guarantor but rather as someone who renders ‘goodwill’ on behalf of an applicant for the purpose of saving face and gaining respect to help facilitate getting a loan. The *bars-long* approach can actually be seen as a practice of ‘give and take’. Perhaps this explains why even religious leaders in Senegal or the “*Marabout*” as they are known in French or the “*Serign*” in the local Wolof language, are very effective *bars-long* instruments in negotiating for loans. For most entrepreneurs in Senegal the rationale behind the *bars-long* is to plan and secure the future by building business networking relationships. It is also an opportunity or time to sow seeds of favor. These seeds at the present are a form of investment for mutual benefit with the expectation that favors would equally be returned in the future to the donor when such is required. The more favors a giver or creditor has invested in, the more the connections and favors that would be available in the future. This approach could also be seen as some form of social security in case the donor needs help in the future.

In situations such as the *bars-long*, loan provision has become more political and selective rather than based on standard rules and procedures even within public institutions. This is unlike one would commonly find in developed countries like the UK or the USA. Since it could mean that it is not necessarily the best entrepreneurial talents that would get funded, quality would be compromised in form of products and services produced by entrepreneurs who got funded only because they were privileged to get it. In cultural societies that manifest this type of practice Fons Trompenaars (1993) describes them as being ‘ascriptive’ rather than ‘achievement’ oriented. Trompenaar’s theory in this aspect is akin to that of performance oriented societies as described by the Project GLOBE (Global Organizational Behavior Effectiveness) study, cited by Javidian and

House (2001). Performance orientation measures the importance of performance improvement and excellence in a society and refers to whether or not people are encouraged to strive for continuous improvement. Countries that score high on this scale are the USA, Singapore and Hong Kong where people in these societies are often seen to take initiative and have a sense of urgency and confidence to get things done. In the late 1990's and early 2000's both Hong Kong and Singapore have competed for the number one and number two best places to do business in the world. Italy and Russia on the other hand scored low on the performance orientation scale for a number of reasons. According to the GLOBE Project part of what contributed to the low performance orientation culture in the Italian and Russian societies can be attributed to their holding of other priorities ahead of performance, such as tradition, loyalty, family and background and they associate competition with defeat. The same attitude towards performance in Italy and Russia seem to manifest in Senegal, especially when standards for granting loans to entrepreneurs are not decided on merit and could affect quality and standards.

According to Fons Trompennars, the legitimization of status and power in 'achievement' oriented societies like the USA and most of Western Europe, employment, contracts or loan qualifications are strictly based on merit whereas in 'ascriptive' based societies like in Africa, Latin America or Asia, qualifications for opportunities are mostly based on who you know or what your status is in society. The likelihood that nepotism would play a role in such situations therefore is very high.

Although most of the reasons given for the collapse of the Indonesian economy during the Suharato regime between the late 1990's and the early 2000's had to do with either corruption, mismanagement or misappropriation of funds, the rampant practice of nepotism and related behaviors, where unqualified personnel were recruited for jobs simply because were 'family' was also accounted for as being partially responsible for the fall of the Suharato regime.

In a capital-intensive sector like manufacturing where machinery and equipment are crucial requirements for effective operation, most of which, would have to be imported due to the underdeveloped technical base of the region, ample amount of funds is very essential for firms to function at capacity. In some countries in sub-Saharan Africa like Nigeria, which is an Anglophone country, Mambula (2004) has observed that a number of entrepreneurs are improvising machines and spares in the absence of required funds to import equipments and machines for small plastics manufacturing. Although mostly sub-standard and poor in quality, the type of improvising practice among the Nigerian small plastics manufacturers is not noticeable among the small manufacturing firms in Senegal. Perhaps one reason that could explain for this difference is the fact that by comparison and while maintaining its status quo as one of the top-ten oil producing nations in the world Nigeria is a more populated, resource endowed and technically more advanced country than Senegal. To further support this evidence, between the 1970's and '80's, Nigeria has invested heavily in technical education programs at home and abroad and many of such technicians now own independent businesses of their own.

As a lesson to other lesser developed countries, the benefits of investment in science education and technology in India from the 1950s-1970's seems to be paying off today as most Information Technology companies from the western world are now outsourcing production to India.

There are other issues that raise concern for the development of the small manufacturing sector in Senegal. Among the examples observed from this study is the fact that three years after their businesses were in operation only 30% of those surveyed had applied for external funding for their projects, even though a higher percentage of the entrepreneurs were aware of possibilities for external funding. The two most common explanations the entrepreneurs gave for taking the decision not to apply for funding were that; external funding are too expensive to acquire in Senegal and the general perception among the people is that since external funding is very difficult to obtain, they saw no point in wasting their time to apply. The fact that there are very few sources of credit whether in the public or private sector establishments in Senegal is obvious. The scarcity of credit facilities therefore makes the availability of funds that can go around for most applicants limited and competitive. This is why the right approach to take for giving loans is by giving them to the best and most qualified entrepreneurs through compliance. However, as earlier mentioned the competitiveness, by which applicants can obtain funds, is not based on the promising qualities or credentials that entrepreneurs have. It is the *bars-long* factor that counts. The call to dis-mantle the *bars-long* system should be a primary reason that justifies the need to create more sources of external funding that can provide adequate amount of funds to local businesses without strings in Senegal.

From all indications it is already clear that access to external funding is very hard for entrepreneurs to obtain in Senegal. This finding agrees with what McMahon (2001) and Cook (2001), had noted earlier that dearth of funds is indeed one of the most serious impediments facing entrepreneurs in lesser-developed countries. Similarly, Mambula (2004) in a comparative study analyses of small firms and entrepreneurs that have received external support and those that did not has also discovered a higher level of performance among those with external support than those without, even though it made no difference that those entrepreneurs without external support had better education and seemingly better entrepreneurial acumen. It was access to available capital that was key to higher level of performance.

This study has identified that the most popular source of finance for small businesses in Senegal is from self-generated profits. Over 60% of the interviewed said that retained profits will be the main source of future funding followed by group funding and external investment, each supported by 17% of the interviewed respondents. It shouldn't be a reason for concern for most Senegalese entrepreneurs if their self generated profits were enough to cover the internal funding requirements that their companies needs but the amounts that they generate on average are very minimal. When the respondents were further asked with the question: "What proportion of your total internal funding requirements is currently met by self generated profits?" the answers are as follows:

1-24% of the interviewed said 27%; 25-49% said 29% of their profits covers their internal funding needs. A further 22% responded that their re-invested profits cover 50-74% of necessary funding. Only 8% responded that profits will cover more than 75% of funds needed. It should be remembered that retained profit is the main method most Senegalese businessmen depend upon for re-investment and their preferred method is group funding. Up to 50% of the respondents in this study have said that group funding is the most convenient alternative method for financing their investments because it pools more resources at a cheaper rate than with financial institutions that are very costly to obtain or with the public establishments, which is 'politically' difficult to get because of *bars-long*.

Senegalese entrepreneurs appear to have tendencies and preference for group work and creating networks amongst themselves to support one another, rather than doing it alone as also noted among family and friends in other parts of the world like in southern Italy and China for example (Orru, 1991). In Senegal the preference for group rather than individual work in business is not unrelated to the 'group goal' orientation, which has its roots in the tradition of the Senegalese culture and for preference to rely on family and friends to get trust, for reliability and security. Group members of family and close friends can also be loyal to the business and can even work without pay or sacrifice longer working hours without compensation, because of loyalty that is based upon the strength of shared relationship ties. Every member in the group is expected to protect and share equal responsibility for the success or failure of a group member. By comparison, external sources of support would appear to be intimidating, insensitive and hostile especially that of financial institutions that have typical capitalist principles. In this context, Hofstede (1984) would describe the type of cultural variable dimension of the Senegalese to fit that of the 'collectivist' society, which are also similar to the ones found in countries like China, Latin America, the Mid-East, Italy and Africa. Collectivists' contrasts with the 'individualistic', type as found in the USA, and most other countries of Anglo origin, like Australia, Canada and New Zealand. Ironically however, Hofstede noted that it was the individualistic societies that had more political freedom and higher living standards than those in collectivist's societies like Senegal. The group goal orientation also portrays attitudes of people described by Hofstede as being more 'feminine' rather than the 'masculine' type of culture. In feminine countries like Sweden, and most Scandinavian countries and Africa, people are more relational and have preference and concern about protecting the welfare and harmonious working relationship of the group while maintaining quality of life rather than promoting individual qualities in a more aggressive, materialistic and competitive manner as found in the environment of a masculine oriented society. Although the Senegalese share similar traits with the Scandinavians as feminine countries the former are economically more backward by comparison. This could mainly be attributed to the well-established structures for facilitating the business and economic sectors of the Scandinavian countries, which are lacking in Senegal.

It is also important to understand that the self-generated revenues from small businesses, which are the main sources of income for the interviewed entrepreneurs in Senegal, also serve the dual purpose of providing for both their means of livelihood as well as for running their business.

Thus, most of the entrepreneurs cannot afford to put all of their profits back into the business because they are compelled by obligation to use them to cater for domestic needs as well. One of the recommendations made by Schumpeter for business growth is the re-investment of capital and the efficient use of resources. The application of Schumpeter's theory considering the culture and economic environment in Senegal would be difficult. In collectivist societies like Africa and Asia particularly in China (Dereskey, 2003), people are expected to provide for the needs of their wider extended (*f-connection*) families, friends and even employees. Even in Japan social responsibility mainly means long-term relationships that requires catering for employees. In referring to what he calls the 'economy of affection', Goran Hyden (1984) explains that peoples' reputation in such societies like the collectivists are sometimes measured by how much they honor their responsibilities to others in times of need. How people show concern and are sensitive to other peoples needs is the issue. With the Chinese this cultural practice of showing *face* is known as the '*lien*' and '*mien-tzu*'. The former refers to the moral character, which defines a person, without which no body can live or exist (Deresky, 2003). The latter, refers to accomplishments, prestige and what someone has achieved and does to people (Ibid). Among the Chinese, people are obligated to give time, gifts and favor and succor to people when needed. These kinds of cultural norms in reality are what influences the more than 60% respondents who were saying that they can only afford to put back a maximum of 40-50% of generated profits into their business in Senegal, thus making the financial situation of their businesses marginal and worse off overtime, with little chances for growth. If being frugal and maintaining a parsimonious lifestyle are conditions by which, small businesses are expected to perform better or survive, the cultural setting in most of sub-Saharan Africa, which portrays as a sharing and giving society has a lot of challenges to small under funded businesses and entrepreneurs.

The adverse financial situation is responsible for other problems and weakness of the interviewed companies in Senegal. The companies face many other problems both in the marketing and in the research and development (R&D) fields. The problems the companies face in the marketing fields is not as severe as the problems concerned with financing. Almost 50% of the companies conduct some simple form of market research and although it is still a weakness, by comparison with other problems this is a higher ratio and is better than expected. Unfortunately only 55% could say what part of their budget is spent on improving their marketing efforts. The preferred method of advertising by the respondents is word of mouth (almost every company uses it); this however is the cheapest way to spread messages. Only 20% use advertising in the trade press. This again could largely be attributed to the financial constraints of the firms. There are however some positive aspects in the marketing field. Almost 50% of the entrepreneurs agreed that the current marketing position of their firms is conducive for growth in the company. Over 40% of the respondents said they received any form of free external marketing assistance from community and government publicity directly or indirectly e.g. campaign to support local producers, membership in local chambers of commerce and organized trade fairs. Over two thirds of the entrepreneurs

interviewed foresee changes in their firms marketing position. This shows that although they have a vision for their businesses they are limited by resources to see beyond the local environment e.g. for exports to foreign markets or even to neighboring countries.

To conduct R&D is another real weakness for most of the surveyed companies. This is again mainly due to lack of capital availability for such purposes. A total of 67% respondents say they have not been able to proceed with any kind of innovation because of lack of funds. Also only 30% say that their company undertakes any kind of basic R&D. The questions regarding R&D show an interesting angle. There is little cooperation cultivated between different firms especially with the larger firms or with research institutions like universities. Even though they favor group financing most entrepreneurs in Senegal are also secretive and protective in sharing ideas and personal discoveries. Senegalese businesses do not conduct research for others and they also rarely subcontract R&D projects to other companies. This is unlike in Nigeria where Mambula (2004) found that information flows more freely among small entrepreneurs who share information and subcontract jobs among themselves and split profits. If cooperation among firms can be developed and strengthened, costs of R&D could go down significantly thereby making it easier and affordable to exchange mutually benefiting ideas. This is why agglomeration of companies in the same area like that of the silicon valley in San Francisco, silicon alley in New York and route 128 in Massachusetts or the research triangle in North Carolina are known to be breeding grounds for new companies and spin-offs through exchange of information and ideas (Audretsch et. al. 2002).

The area where the government and NGOs can provide the best assistance for development of small businesses in Senegal is with financial matters. Only 14% of the surveyed businesses have received any kind of assistance from government or external sources. This is a very low percentage especially if small businesses are expected to grow and make any significant contribution to the economy. There should be more and better accessible external sources of financing and assistance. Every of the few small manufacturers that received some kind of external or government assistance were very pleased with the results and almost every beneficiary interviewed say that the government should continue to assist more small businesses. However, there is a disturbing occurrence when the question was asked, if the respondents would accept government assistance? 51% say that they do not know. This is a clear message that many people are not confident or eager to pursue government assistance and need better education about the availability and beneficial effects of government aid. Another problem that seems to contribute to the lethargic growth and development of the small firm sector in Senegal is the issue of tax evasion. Most of the surveyed entrepreneurs and business students agreed to the fact that tax rates are too high for most small firms to afford paying them. For this reason many firms choose to remain anonymous and operate informally by choosing not to register their outfits with the government department of commerce. To play it safe such firms would conceal their identity by not announcing their existence unlike how a legitimate company would confidently do. To avoid their informal status from being exposed and which could even cost them to pay some penalties, such firms would decline from seeking any form of government support and

have no option but to seek succor from alternative sources like their close friends, family or relatives or depend on self generated earnings, which is often very minimal.

Furthermore, the French colonial policy might have complicated industrial development matters for Senegalese entrepreneurs without giving due consideration to the latter's cultural background. The French colonial approach appears to be that of two different cultures (One in Europe and the Other in Africa) that were grafted into one through the 'assimilation' policy. Under this policy the Senegalese or any other French colony are considered as being the same or 'French', with the only difference being that they are living in a different part of the world and skin. For this policy to work effectively the Senegalese and all other French colonies had no choice but to adapt to the 'so called' French way of doing things. It should be clearly known that quite a few cultural differences exist between the French and the Senegalese. One is European and the other is African. For example from Hofstede's cultural variables, the French would be more individualistic in nature than the Senegalese who have a more extended family structure and are collectivist, which is typical of most African countries. In addition, studies have shown that the French are not very supportive of entrepreneurship, which is constrained by rigid bureaucratic government policies and procedures (See: Audretsch, et al 2002). These mentioned factors from French colonial influence does not seem to have allowed the Senegalese to fully develop their own entrepreneurial culture relevant to their original traditional culture, since everything has to be done the French way. Deresky (2003) noted that no country, company or manager should ever think that they could easily impose their own culture on another people by being ethnocentric. Cultures are relative and deeply rooted in their unique philosophies, beliefs, norms, religion, language, assumptions, understandings, codes of conduct, and values among other variables, which they share as a people and which forms their basis of living and shapes their overall environment.

RECOMMENDATIONS

As my survey has indicated, one of the most serious problems facing entrepreneurs in Senegal is lack of capital and this is attributed to the limited sources of funding available. In addition, the financial problem has directly or indirectly contributed to other problems faced by most small businesses in Senegal. Challenges arising from dearth of funds have not been made any easier due to the influence of prevailing cultural norms that further compound the difficulty for most entrepreneurs to generate and use capital appropriately. There are a few things that could be done to help the Senegalese improve on this factor. The first thing that should be done is for the Senegalese government to lessen the credit limits and restrictions for Senegalese banks. This will allow the banks to have a more aggressive credit policy and will be able to expand their credit portfolio. This method will allow better access to credit and funds to entrepreneurs that could not receive those benefits because of tight credit requirements. Another useful improvement is that the high tax rates need to be lowered as an incentive to small firms. Lower tax rates or even grace

periods will encourage small firms to register as formal firms, which will also encourage them to apply for loans and avoid being suspicious and operate undercover as illegal firms. Unfortunately, government restrictions are not the only problem. Recent articles cite the lack of efficient management and inadequacy and the shortage of human resources in local banks as a main reason for the low services that banks give local SME's. This deficiency however, can be improved with training.

The second policy that should be placed in existence is government guaranties for small business loans. This should be done with caution so that the government does not slacken bank requirements by too much in order to protect banks against default because of fear of small business failures. The requirements to receive small business loans should be lower than the requirements for regular loans however. The Senegalese government should decide what those requirements should be and up to what amount it will guarantee for the loan. The USA Small Business Administration (SBA) guarantees up to \$2million loans from banks for credible small business applicants (Cutler, 2003). A program like that was also successful in Bulgaria just a few years ago. Even though the program did not have as many participants as hoped for initially mainly because of credit requirements it was still a success and helped many small business owners and starting entrepreneurs to receive a small loan that helped them grow their businesses in Bulgaria.

A third policy that will help Senegalese SME's is the presence of NGO's that help small businesses with advice through strategic business planning and management consulting especially on uses of small credits. Some of such programs have been very successful around the world. The 2006 Nobel Prize winning Grameen bank for example adopted such an approach and has witnessed many success stories. The Grameen is a billion dollar micro business financing bank operating mainly in the South East Asian Region, particularly in Bangladesh. Approaches such as these are also popular in the post communist countries of Eastern Europe and the former USSR. The World Bank and other NGO's in countries all over the globe have applied and used methods like these for development. There are many studies showing the effectiveness of such programs. However, as it appears from this study, having access to such modes of financing is very limited in Senegal and other African countries at the moment. This situation needs to change and much more attention should be paid to SME financing in terms of earmarking sufficient funds for the effective development of the SME sector in Senegal and the rest of Africa.

A recent study on 'Enhancing the competitiveness and productivity of small and medium scaled enterprises (SMEs) in Africa: An analysis of differential roles of national government through improved support services' by Ashmelash Beyene (2002) explored how government policies has affected SMEs in sub-Saharan countries. Senegal was part of this study. Beyene's study showed that government policy in Senegal was disabling and not conducive to small business growth. However, the same study showed that this attitude is changing and government policy is becoming more open toward helping SMEs or at least not discouraging their growth by at least creating a free business environment. Creating an enabling environment alone is still a long way to go however as there are

many examples of administrative bottlenecks and issues affecting and slowing down the growth of SME's like the complex administrative procedures for trade transactions and lack of transparency in processing administrative matters. Some believe that this approach to methods and policy in Senegal was inherited from the rigid bureaucratic system of their former French colonial masters, which did not consider African culture in the formula for bringing development to the country, by further complicating the process. Something that could be very helpful and does not need much of government help in helping businesses progress is for entrepreneurs is to create their own so-called 'networks' or 'clusters' amongst themselves. Such networks are very popular in Italy and in China. In China this is known as the '*bamboo network*' and involves input from overseas Chinese. These networks show how fellow compatriots in the Diaspora can indeed contribute to small enterprise development and overall economic development at home. The Italian and Chinese small and family businesses are examples of such arrangements and are considered to be the backbone of these countries' economy and are creating great results. There are many studies on the positive effects of networks and the organizations that participate in them. Researchers on this subject agree that creating clusters of SME's helps enormously to disseminate knowledge and capital among firms both horizontally and vertically. It also helps firms create many synergies and reach economies of scale and scope they would not usually achieve (Peng, 2006, Thurick et al 2001).

COMMON SOURCES OF FINANCING FOR SMALL BUSINESS

The choice of financing is an important determinant of whether a product reaches the market, or whether an existing business can generate enough revenue and survive. The choice of financing is therefore a necessary part of being an entrepreneur. The business owner needs to have the ability to raise cash when a business has no or limited history and this takes skill and creativity. There are a number of sources of financing for small businesses that are being used in developed countries. Countries in Africa like Senegal could learn from these, although they would have to be adjusted to fit in with cultural and environmental situations. The suitability of the alternatives would depend on what stage the business is in, and will change as the company matures through different phases. A number of different approaches can be identified of the common forms of financing available. Most of these forms are almost unheard of and are not practiced in Senegal. The common methods for raising capital are through family, friends or self. That means that the entrepreneurs either draw down on their savings or use personal debt. In Senegal the opportunity to use additional sources of borrowing such as through credit cards, credit lines or equity mortgages to finance their business are not available in the way it is in developed countries. Family, friends and connections (*barslong*) are often used as the only source of financing, sometimes sacrificially to help sustain the business because family and friends do not demand to be paid with interest, especially when the business is short of cash. Due to their limited experience family and friends may not always be in a proper position to evaluate a business venture for success, but they would have acquired enough knowledge

through long-term relationships about an entrepreneur's character in terms of dependability and ability to honor loans and be able to use them appropriately. This is another type of cultural norm that is practiced in business in African societies like Senegal, whereby people anticipate that sacrificial favors given to friends and family will be reciprocated for future benefits.

Another financing method that is frequently used by other businesses in developed countries is that of strategic partnership. Strategic partnership does not only provide a source of capital, but also provides an area of expertise that the entrepreneur does not bring to the table, such as operational or marketing skills. Naturally, the pitfall of a partner is that you do not maintain full control over the company and that sometimes there is a falling out between the partners. So it is important that a businessman does a good due diligence and background check for choice of partners. One of the advantages of partnering is that it saves costs from troubleshooting in trying to find solutions on aspects of the business that an entrepreneur is not acquainted with. The partner with skills and knowledge in an area that is unfamiliar to the other would not only help provide free learning in a new area, but will also help to save money incurred through wastage, lost business opportunities or paying for consulting fees. This method should indeed work well in Senegal considering their preference for group work over individuality. Partnership should be made to include other helpful links with larger companies for sub-contracting and with research centers like universities for innovative products and processing methods, also with trade associations and chambers of commerce for promotion as well as with technological centers for ideas, in addition to finding other avenues and opportunities for encouraging growth.

Angel Financing is another method commonly used to finance small businesses in the USA. Angel financing is made of freelance financiers interested in offering smaller amounts of money, say between \$50,000-\$500,000. They can often provide the seed capital required to develop an idea to get to the point where a firm can obtain formal financing. Angel investors will also invest in growing companies that may have a strong revenue base, but are not yet established enough to get bank loans or other financing. Another benefit of Angels is that they can bring a lot of experience and industry contacts to the table. The disadvantage of using angel financiers however is the tendency of losing ownership and control of the firm and eventually buying out the original founder. Senegalese business leaders and captains of the industry should therefore provide input in this area to help small businesses rise to better levels of development. Even though the Senegalese culture favors group goal relationships in the work environment, the type of strong business networking relationship that the Japanese developed through (*Kieretsu*) and the Chinese through (*Guanxi*) are non-existent.

Venture Capital is another form of financing where small firms approach lenders when they have developed to the point where a venture capitalist can add value. The venture capitalists will generally sit on the board of directors, provide expertise and provide funding based on the attainment of milestones. They are generally interested in firms that can generate rapid growth and returns over a few short years; the time horizon is generally 3-8 years. Again some of the funding

institutions and NGOs including banks in Senegal could introduce such methods geared towards fast track small businesses.

Trade Credit, is also another and one of the largest sources of short-term financing used in many developed countries especially in the USA. Trade credit occurs whenever a businessman purchases from a supplier but does not have to pay for the merchandise for a length of certain days (or whatever the terms are). Trade credit can be expensive if a small business is foregoing discounts but a new firm may not have much of a choice. Government development agencies would be better suited to handle such type of funding method in Senegal, as they can subsidize costs and offer grace periods for credit payment than financial institutions. These can be helpful especially for importing machinery and parts and for raw materials. Grace periods will give enough time for struggling businesses to recuperate especially when they are recovering from difficulties experienced from harsh periods of economic downturns, like a recession or other unfavorable policies, which is not within their control.

Similarly, factoring or another name for 'collector' is also a popular source of financing for growing firms. When a small business generates receivables they may sell it to a factor who will then collect the receivable for the company. Typically, the business will get between 75%-90% upfront for the receivable and the remainder when the factor collects, less a fee. The business community can organize such arrangements so that small Senegalese businesses can therefore use such methods and maintain positive cash flow and improve on their payables and receivables by reducing the burden it places on their available working capital.

Asset based lenders, will lend to businesses that lack sufficient cash flow to support unsecured financing, but have sufficient assets that can serve as collateral. In other word when they have a higher capital ratio than the norm. Typically, the assets are accounts receivable and inventory, but can be equipment or other similar assets. The lender relies on the assets to repay the loan, not the cash flow of the firm. Fast growing firms who cannot get sufficient financing from a financial institution will be a typical client of an asset based lender. This practice is not yet available in Senegal, but could be useful to the under-developed small manufacturing sector of the country. Most machines in Senegal are cheap, simple and some antiquated usually below value. There are hardly any modern state of the art machines or equipments that could be used as collateral in most cases to attract the services of asset based lenders in Senegal. In this case, again it should be the government through its lending agencies and NGOs that would be better suited to handle this method of financing to small manufacturers.

Mezzanine financing is a subordinated debt. It is a type of hybrid between senior debt and equity. Mezzanine financing is typically high risk, and can be expensive. A typical target company is generally one that has been in business for a number of years and has an established revenue base and positive cash flow stream. When a company may have reached its maximum level of financing from a lending institution it could qualify and obtain mezzanine financing to bridge the gap and finance their growth. The Mezzanine financier will subordinate its debt to the main lender.

Mezzanine type of financing would be good for existing business that need some help to continue to remain in business and not liquidate. Even in developed countries the government comes to the aid of companies by using taxpayers money to rescue ailing but important businesses that serve the community well. Senegalese government and capable stakeholders should also respond to the needs of such ailing companies when needed and should also benefit from the same.

Banks are typically regarded as the main source of financiers to businesses generally. Entrepreneurs can source for start-up money from banks but are usually seen as high risk. Firms that attract loans from banks are those that usually have been in business for a couple of years, have developed solid revenue, are earning profits and have maintained a reasonable balance sheet. The bank will provide daily operational financing as well as long-term financing. Bank loans are expected to generally be the cheapest form of financing but as observed in the case of Senegal, it can also be the hardest to get for small business due to not only their high-risk level but also the need for connections or *bars-long*. The process for obtaining loans in Senegal according to the respondents of this study is very cumbersome and selective and interest rates can also be costly. This discourages most small businesses from applying for such loans and resort to other cheaper but less bountiful alternatives.

CONCLUSION

This study has been able to show that capital formation and financial management methods by reason of cultural and environmental factors in addition to limited awareness and practice of other funding approaches have contributed to the backward development of the small manufacturing sector in Senegal. The paucity of sources to acquire adequate funding and the lack of any bold commitment by the government and relevant institutions to give support to small firms in Senegal is also lacking. The methods of raising capital are still very basic in Senegal and even some of the other simple but efficacious methods available in developed countries are not available. It is for this reason that it can be suggested that the government plays a more active role to support especially the small manufacturing business sector that has seemingly been neglected through the provision of training, creating awareness and by enacting favorable policies for banks and financial institutions to be equally as participative in the process. Indeed, cultural factors have played an important role in influencing how entrepreneurs and managers behave and make decisions with regards to uses of funds in Senegal, but this has been caused by lack of awareness of educated management practices, which most of the entrepreneurs have not been exposed to. Banks would certainly consider such businesses with limited exposure and business training as high risk. The Senegalese entrepreneurs need more guidance in understanding the process of running a modern day small business, through progressive growth phases. Lessons in strategic business planning and Total Quality management (TQM) would perhaps enhance the chances of small businesses with banks and other loan institutions. A comment was made by a Senegalese Director of a small German NGO based

industrial estate facility for small business firms in Senegal. The Director had said that, among the serious growth problems facing private business owners in Senegal is the effect of French colonial mentality. According to the Director this mentality problem is about how people are generally tuned into expecting the government to do everything for them, creating some sort of dependency. This attitude makes the entrepreneurs to have a mindset that limits their innovative skills or to search for alternatives that improve on their approaches to modern business and management. This explains why most small businesses in Senegal are into trading than manufacturing. This also explains why most manufacturers are into similar lines of businesses to follow the norm that most businesses go into, like that of furniture making. If small business owners in Senegal are willing to work together however by forming unions to share ideas they should have coaches who would guide them in the right direction and this could be done with government input. The government at the moment seems to be reluctant in its assistance towards helping small businesses compared to its interest for larger companies. Perhaps this bias is partly because of the benefits reaped from larger companies in form of revenue from taxes and more employment generation per company and or for political purposes. The political basis on which loans or the minimal public funds available and given need to be checked. The *bars-long* method should be withdrawn from public and formal institutions, as it does not support conventional capitalist approach to doing business. Loan packages should entirely be based on compliance to standards and capability among entrepreneurs. Business plan presentations (Richards, 2002) and monitoring even after funding has been presented should be conducted on regular basis. Using these methods would help encourage existing and potential entrepreneurs to surface and also raise a standard for identifying quality *'avante garde'* type of entrepreneurs in Senegal. More programs are needed in Senegal to upgrade the level of awareness and interest among existing and potential small business owners in Senegal. Education at basic levels, issues of sub-contracting, exports, alliances, research and development and total quality management measures would need to be introduced. Like in other countries the Senegalese government could be among the leading customers of small industries by offering procurement opportunities as is done in some developed countries like the USA, Japan and the UK. Small companies in Senegal should be encouraged to register as formal companies by providing them with incentives that will lessen their burden as established firms. Lower taxes or grace periods, free programs and training opportunities, subsidized costs where needed, contracting and other forms of support should help. Senegalese small businesses and entrepreneurs should be exposed to what other similar small business and entrepreneurs are doing around the world, especially in developing countries. This could be done by organizing and attending international trade fairs and trade shows. The networking relationships among the seemingly disintegrated business community in Senegal need to be brought together by educating the public in this regard. Building a sound foundation of all stakeholders would help create the supporting facilities needed for a more robust business and economic growth. Different groups within the business community could provide the various forms of financing mentioned in the study. The French would have to find ways to be independent from the influence of the French

culture in everything they do especially in business and develop their own approach suitable to their own cultural environment. The French should only play a supportive role to aid entrepreneurship development in Senegal and its other former colonies but not to be involving. Senegal is an underdeveloped economy whereas French is among the G-7 most industrialized nations. The two countries are two far apart in terms of their cultural, economic and technological backgrounds to be treated as the same in practices. The government of Senegal needs to play a more active role by harnessing all resources, creating networks and set the 'ball rolling'. The stage must be set for take off in the right direction with good and professional guidance and support.

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APPENDIX 1		
Summary of Survey Findings		
S/N	Survey Question Description	Percentage of Respondents
1.	Source of funds are self generated	60%
2.	Have preference for Group funding and external investment	17%
3.	Proportion of funding met by self generated funds	
-	25-49%	29%
-	22%	50-74%
-	8%	Above 75%
4.	Group funding is the most convenient method for financing investments	50%
5.	Maximum re-investment of 40-50% back into their businesses	60%
6.	Spend part of budget on Marketing	55%
7.	Use some form of Advertising	20%
8.	Current Market position is conducive to business growth	50%
9.	Receive some form of external market assistance from govt., and other sources	40%
10.	Have not been able to proceed with innovation due to lack of capital funding	67%
11.	Conduct basic R&D	30%
12.	Received government assistance	14%
13.	Don't know if they would accept any government assistance	51%

POLITICAL STRATEGY OF CHINESE PRIVATE VENTURES: AN ORGANIZATIONAL LIFE CYCLE FRAMEWORK

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ABSTRACT

Drawing upon insights from multiple theories on corporate political strategy, this study proposes an organizational life cycle framework for explaining Chinese ventures' political strategies. The model suggests that Chinese private ventures exhibit different motivations, objectives and approaches in their political strategies at different life-cycle stages, due to changes in the environmental and institutional constraints and their organizational dominant problems. To better understand Chinese private ventures' political strategies, researchers need to take into account both the environmental and organizational contexts at each stage under which the venture's political strategies are developed.

INTRODUCTION

Scholars have long recognized the importance of political strategies in affecting firm behavior and performance (Getz, 1997; Hillman & Hitt, 1999; Hillman, Keim & Schuler, 2004; Hillman, Zardkoohi & Bierman, 1999; Keim & Baysinger, 1988; Masters & Baysinger, 1985; Masters & Keim, 1985). Because government policies have significant effects on competitive environment of firms, companies may employ political strategies or actions (such as lobbying, advocacy advertising, political campaign contribution, etc.) to create a favorable external environment, and to gain competitive advantages over their rivals. Current research on corporate political strategy, however, is largely conducted on Western companies, especially in the setting of multinational corporations (e.g., Blumentritt & Nigh, 2002; Chen, 2007; Hillman, 2003; Kennedy, 2007). The political strategy of private ventures in a non-Western country (such as China) is a much-understudied area. Given the increasing influence of private sector in Chinese national (ADB, 2003; Dougherty, Herd & He, 2007), and the significant power of government policies on the development of private ventures in China, knowledge about political strategies of Chinese private ventures becomes imperative.

This paper aims to enrich the research of corporate political strategy by building a descriptive theory for understanding Chinese private ventures' political strategies. Adopting an organizational life cycle approach, and drawing upon insights of multiple theories such as the resource-dependence

theory (Pfeffer & Salancik, 1978), institutional theory (DiMaggio & Powell, 1983; Powell & DiMaggio, 1991), strategic choice theory (Child, 1972), exchange theory (Cook, 1977) and the resource-based view (Barney, 1991; Wernerfelt, 1984), the paper builds a framework to explain how the environmental and organizational factors influence political strategies of Chinese private ventures at different life-cycle stages. Since China differs sharply from Western countries in political, societal and cultural environment, I hope this study offer an opportunity to refine and test existing theories, and to further our understanding of corporate political strategy by focusing on emerging economies. The premise of the life cycle framework is that at different developmental stages, Chinese private ventures exhibit different motivations, objectives, and often take different approaches for their political strategies, due to different external and internal environments. Prior research has suggested that a firm's political strategy changes over time as it faces different sets of opportunities and threats from the environment, however less research has been done on the change of a firm's political strategy (Getz, 1997). This study therefore answers this research call as well.

THEORIES ON CORPORATE POLITICAL STRATEGY

Government business policies affect firms' competitive advantages significantly (Keim & Baysinger, 1988). Government has the ability to do so because it can influence the opportunity sets faced by the firms and affect their competitive environment through regulations and government policies (Hillman & Hitt, 1999; Hillman et al., 1999). Acts of government create individual winners and losers in the marketplace (Leone, 1986). Because of the significance of government intervention, firms compete in their market environment and in their non-market environment (Baron, 1999). By developing political strategies, firms create favorable environment for their market competition, therefore gaining economic rents or sustain their competitive advantages which they cannot achieve elsewhere (Gale & Buchholz, 1987). In a restatement of a definition put forth by Keim and Baysinger(1988), Schuler (1996 : 721) defined corporate political strategy is "a pattern in a stream of managerial decisions that represent an integrated set of activities within a firm intended to produce public policy outcomes favorable to the firm's economic survival and continued success". Typical political strategies include lobbying, campaign contribution, coalition building, and information provision, etc. (Baron, 1999). The definition of political strategy in this paper, however, is narrower than Schuler's definition. The discussion of political strategy here focuses only on firm's actions or endeavors undertaken in the *government* arena, therefore does not include public affairs functions. For this research, firm political strategy is defined as any deliberate actions or strategies a firm takes to influence government policy or process.

Scholars have employed different theories to explain the basic questions of firm political strategy, i.e., why and how a firm engages in political strategies, and what types of political strategies a firm takes (Getz, 1997). These theories include resource dependence theory (Pfeffer & Salancik, 1978), institutions theory (DiMaggio & Powell, 1983), strategic choice theory (Child,

1972; Cyert & March, 1963), exchange theory (Cook, 1977) (see Getz, 1997 for a detailed review), and more recently, the resource-based view of the firm (Barney, 1991). Although I am not going to repeat a full-length literature review here, a brief overview of these theories is necessary. Especially, I am interested in the theories which are especially relevant to the context of Chinese transitional economy. These include the resource dependence theory, institutional theory, strategic choice theory, exchange theory, and the resource-based view.

Resource Dependence Theory

According to the resource-dependence theory (Pfeffer & Salancik, 1978), a firm needs to respond to environmental pressures by obtaining and allocating necessary resources. The assumptions of this theory include (1) organizations are assumed to be comprised of internal and external coalitions which emerge from social exchanges that are formed to influence and control behavior; (2) the environment is assumed to contain scarce and valued resources essential to organizational survival and there is always uncertainty for the firm to acquire these resources; (3) organizations must work to reduce their dependence on other actors and/or to increase their dependence on themselves by acquiring relevant resources. The implication of these assumptions is that firms can build competitive advantages by enhancing their power on external actors through resource acquisition and allocation. One of the most important external forces is government policy. The resource dependence theory has been widely employed in the literature of corporation political strategy as a major theoretical basis (e.g., Baysinger, 1984; Hillman & Keim, 1995; Meznar & Nigh, 1995; Yoffie, 1987). The underlying rationale is that firms use political strategies to lower their dependence on the government, and to reduce the uncertainties related to that dependence (Getz, 1997).

Institutional Theory

The institutional theory underlines the importance of norms and expectations in determining organizational behavior (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In general, institutions consists of three components: cultural-cognitive, normative, and regulative elements (Scott, 1995). Researchers in organization and management have adopted the institutional theory to explain how social structure, including schemas, rules, norms, and routines, as authoritative guidelines for social behavior, influences the formation and process of organization (Scott, 1995). In area of strategic management, an institutional-based view of firm strategy highlights the roles of institutions on firm strategic choices (Peng, 2002). Scholars from this perspective argue that firms take political strategy or action to obtain favorable public image and organizational legitimacy (e.g., Hillman, 2003; Hillman & Wan, 2005; Oberman, 1993). Since institutions are different across boarder and cultures, firms in different countries or institutional environments may take different approaches to their

political strategies or actions (Hillman et al., 1995). Evidence has indicated that in transitional economies where market institutions are often less developed, firms tend to engage in various forms of political strategies or actions (Li, Meng & Zhang, 2006).

Strategic Choice Theory

Rooted in the behavioral theory of the firm (Cyert & March, 1963), strategic choice theory asserts that organizational structure and practice affect the development of strategic actions (Child, 1972). This theory asserts that strategic choices start with consideration of relevant forces in the external environment. Organizations make strategic decisions from a range of options which are filtered and constrained by organizational characteristics and are consistent with the values, beliefs, and philosophies of decision makers. This perspective suggests that political strategy, as a form of firm strategic choice, is determined and adjusted by the firm's evaluation of external environment and projected organizational outcome. The determination to adopt political strategies is largely depended upon certain organizational characteristics. For example, Schuler and Rehbein (1995) proposed a model of corporate political strategy and argued that the organizational attributes of a firm such as structure, resources, political experience, issue resilience, and shareholder structure, play as a filter between the external environment and its political strategies.

Exchange Theory

Related to the resource dependence theory, exchange theory (Cook, 1977) highlights the interdependence between the firm and the external actors and emphasizes the exchange relationship between the parties. The theory posits that the rationale of political strategy lies in the transfer of the resource for mutual benefit between the focal firm and the external actors (Mitnick, 1993). In other words, firms take political strategies to gain or exploit advantages in exchange for mutual benefits perceived by the external actor, such as government and its agencies. Different from the resource dependence theory, the exchange theory argues that the power relationship between the firm and the government is more "interdependent", rather than "dependent" (Getz, 1997: 45).

The Resource-Based View

The resource-based view of the firm (Barney, 1991; Wernerfelt, 1984) argues that a firm's sustainable competitive advantage lies in the uniqueness of its composition and implementation of resources. Political resource, broadly defined as a portfolio of various resource elements which can be used in political activities, can be deployed by the firm as a strategic use to influence the government decision-making, and to realize firms' special political objectives (Boddewyn, 1994). Nicloas (2005) proposed eight types of political resources: expertise, financial resource, relational

resource, organizational resource, reputation with other nonmarket actors, public image, support of stakeholders, and recreational skill. Most of studies from this perspective have focused on the process of development and exploitation of political resources. Few, however, have investigated how use of political resource contributes to competitive advantage and superior firm performance (except for Hillman et al., 1999; McWilliams, Van Fleet & Cory, 2002). From this perspective, a firm's participation in political strategies will be associated with its endowment and possession of various political resources.

CHINESE PRIVATE VENTURES AND POLITICAL STRATEGIES

The intervention of government in business development probably is the most distinct characteristics of Chinese transitional economy (Lu & Tang, 1997). The so-called "socialist market economy" represents a hybrid pattern of state-society relation that has been deliberately shaped by the government to ensure business development as well as state control (Pearson, 1997). Since the end of 1970's, China has experienced significant paradigm shift from a formerly central-planned economy to a market-based economy. Along with the economic reforms, changes have made on the political, legal, and administrative environment to accommodate the need for sustainable economic development. The relaxed domestic political and business environment, plus the embrace of globalization has stimulated the emergence and the rapid growth of private businesses in China. According to a report by Asia Development Bank on Chinese private enterprises, the private sector has reached to a momentum of 50% contribution of the whole nation's economy by 2002 (ADB, 2003). More recently, the Outlook Weekly, Xinhua News Agency's news magazine, reports that entrepreneurs and professionals contribute one third of the country's total tax revenues (cite from ChinaDaily, 2006). There has been significant climate change toward private enterprises in recent years. For example, in 2001 the Communist Party of China (CPC) extended membership to the owners of private businesses (Xinhua News, November 18, 2002). In 2007, the Chinese parliament passed China's first law to protect property rights after longtime debate by traditional ideological divisions.

Despite this climate change, Chinese private ventures still face various constraints from both the macro and the micro environment. First, although the National People's Congress had passed the first private property protection law, the law itself is still in its infancy. Due to the absence of private land ownership and lack of necessary legal system reform, the property measure may prove difficult to enforce. Government, to a large extent, still has strict control over land use. For example, research has found that local government, with strong incentives to boost fiscal revenues, often first attempts to acquire land use rights for public interests but then develop some of the land for commercial purpose (Zhang, 2006). In addition, China is still on its way to develop an effective financial system and other formal institutions (Sullivan, 1998) and the enforcement of such law is still difficult. Second, even though there have been some established formal institutions to protect

property rights, the informal institutions are still lagging behind. The traditional ideology of repudiating property ownership imprinted in the central planning era still exists and the culture of respecting property rights has not been developed across the country (Li & Atuahene-Gima, 2001). Private ventures often find it hard to compete against state-owned or joint ventures in acquiring critical resources for growth, such as land use rights and financial capital (Tsang, 1994; Tsang, 1996).

To strive for survival and growth, Chinese private ventures *must* be proactive and innovative in their strategic decision making (Tan, 2001). Various types of political strategies have been employed by private ventures. In an exploratory study, Wu (2006) summarized eight types of political strategies typically employed by Chinese private firms. These include government involvement, direct participation, government association, financial incentive, prolocutor, institution innovation, information consolation and social power mobilization. In another study, Gao and Tian (2006) looked at the differences of political actions between Chinese firms and Western companies. According to these authors, Chinese private firms share some of the political strategies such as information strategy, financial incentive strategy as Western firms, but many forms such as political campaign and constituency building are not seen in China, due to China's different political paradigm. Typical approaches also include direct political participation and other politic-related strategy such as inviting official to visit company or attend important occasions (Gao & Tian, 2006). In most cases, getting connected with government officials or people with such connections becomes critical in the private venture's political strategy (Ahlstrom, Bruton & Lui, 2000; Wank, 1996). While these studies are informative, theoretical framework is still lacking.

THEORY AND PROPOSITION DEVELOPMENT

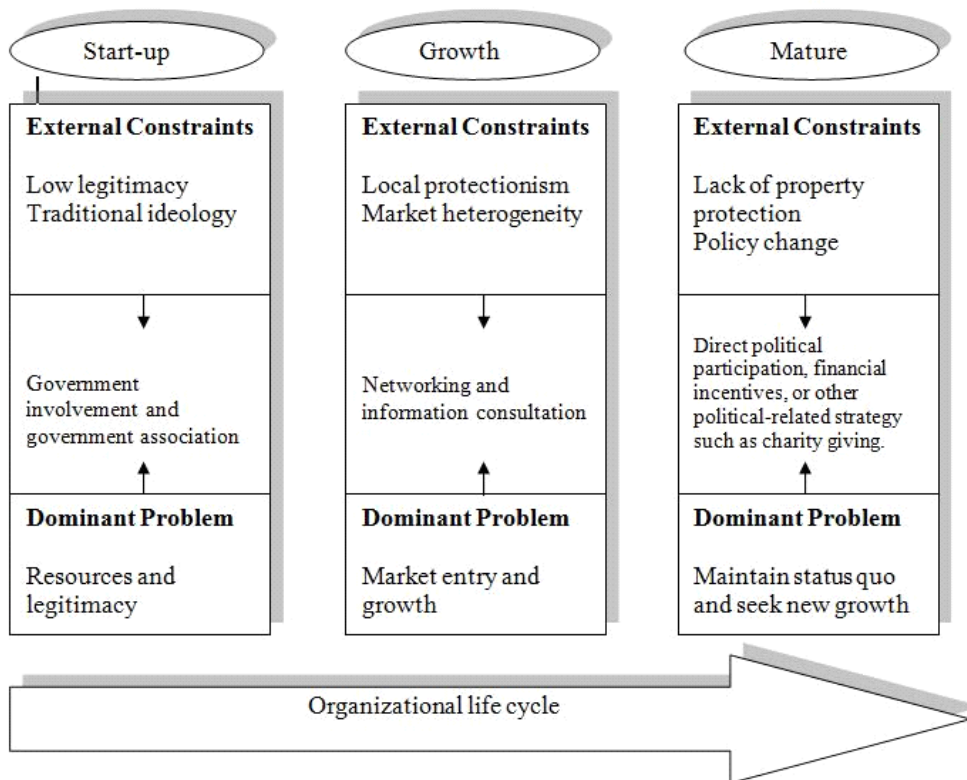
In this section I integrate multiple theoretical perspectives, including resource dependence theory, institutional theory, strategic choice theory, exchange theory and the resource-based view to present a conceptual model of political strategy of Chinese private ventures. Specifically, I propose a life-cycle framework to examine the firm's motivations, objectives and typical approaches of political strategies at three stages of development: (1) startup stage; (2) emerging and growth stage; and (3) mature stage. I (1) show that at any given developmental stage, certain organizational needs or tasks will be more important than others therefore become the major drivers of firm political strategy; (2) identify specific impacts of the state or local government on the venture's developmental needs at each stage (3) highlight specific political strategies or approaches a private venture takes to deal with government at that particular stage.

Theorists from organizational life cycle theory (Adizes, 1979; Greiner, 1972; Kimberly & Miles, 1980) suggest that an organization progresses sequentially through several major stages of development. A central premise of this theory is that as organizations move through various stages of growth, both organizational attributes and the major problems facing organizations change,

resulting in the need for different resources, organizational priorities, and structural configurations (Kazanjian, 1988). Smith, Mitchell and Summer (1985) found that different developmental stages engender different priorities among top managers. Although scholars have different views on how these stages are defined and whether the stages can be clearly distinguished from each other, they tend to agree with a few common milestone stages. Following Smith et al. (1985), in this paper I consider three stages of a venture's development. First, the start-up stage as the venture seeks resources to get the business started; second, the emerging and growth stage, at which the venture expands its product and geographic market; and lastly, the mature stage, at which the venture enjoys stable cash flow and starts to seek opportunities for new growth. The overall model is depicted in figure 1.

Figure 1

A Life Cycle Model of Chinese Private Venture's Political Strategies



Start-up Stage

Starting up a new business not only requires significant amount of manpower from the entrepreneur(s), but also requires various types of founding resources. A large body of research on entrepreneurship has emphasized the key roles of resources in new venture creation and development (e.g., Chandler & Hanks, 1998; Lichtenstein & Brush, 2001). New ventures often lack adequate resources due to their “liabilities of newness” (Stinchcombe, 1965). The dominant problem at this stage, is then to identify and acquire resources such as human, physical, financial, and social resources for starting up the business (Brush & Greene, 1996; Katz & Gartner, 1988). Although China’s market-oriented reforms have successfully transformed a formal centrally-planned economy to a more market-based system, the government still hasn’t relinquished its control over markets for certain critical resources, such as land and capital (ADB, 2003; Nee, 1992). Private ventures, unlike enterprises of other types of ownership (such as state-owned companies, joint ventures between state-owned and foreign companies, or collective enterprises), are in their disadvantageous positions in obtaining these critical resources. For example, private entrepreneurs often find it hard to obtain loans from banks, most of which are state-owned institutions (ADB, 2003; Batjargal & Liu, 2004; Brandt & Li, 2003; Tsang, 1994; Tsang, 1996). A survey conducted in East China's Zhejiang Province, which has the country's most active private economy, 45.7 percent of respondents say that getting financial funding is the biggest obstacle hampering the development of the private sector. In the same survey, about 66.7% respondents report that it is very hard for them to get loans from financial institutions (China Daily, 2004). Coupled with the under-developed and complicated private equity market (Batjargal & Liu, 2004), Chinese private ventures have high level of dependence on the state or local government in terms of acquiring critical resources such as land use rights and capital.

These challenges are associated with the low legitimacy status of Chinese private ventures. For decades, private businesses haven’t obtained legal status in the PRC because they are not consistent with the dominant ideological value of the country (Tsang, 1996). After years of economic reforms and political debates, the status of private ventures have been gradually admitted by the government and finally been granted as legal status. Despite this constitutional change, however, the change of ideological value toward private businesses is still very slow (Li & Atuahene-Gima, 2001). As discussed earlier, the lack of private land ownership and lagged-behind legal development, private entrepreneurs are still struggling to enhance the status of themselves and their businesses to secure their interests (Bai, Lu & Tao, 2006).

The above political and institutional constraints have important implications for Chinese private ventures in their political strategies at their early stages. Acquiring and enhancing organizational resources and legitimacy is critically important to Chinese private ventures (Ahlstrom & Bruton, 2001). At the startup stage, Chinese private ventures *must* act proactively toward government to enhance their legitimacy, so they can be treated favorably or at least equally in terms

of resource opportunities. Evidences indicate that at this stage getting government officials or people with government connections involved with their businesses is very common in Chinese private ventures (Ahlstrom et al., 2000). This co-opting strategy enhances the new venture's legitimacy, and provides the way to neutralize institutional opposition (Ahlstrom & Bruton, 2001; Tsang, 1996).

Summarizing the above arguments, I propose:

Proposition 1: During the start-up stage, Chinese private ventures engage in political strategies to obtain founding resources and to enhance organizational legitimacy. Typical approaches include government involvement and government association.

Emerging and Growth Stage

Once the venture is formed and starts to grow, the resource and the legitimacy constraints become less salient than that of the founding period. Scholars from the organizational life cycle theory argue that at this stage, problems such as sales and marketing, and strategic positioning become dominant to the venture (Kazanjian, 1988). Terpstra and Olson (1993) found empirical support for Kazanjian's assertion. With this dominant problem change, the venture has more interactions with the constituents of its competitive environment, such as suppliers, distributors, customers, competitors, and regulators. Also, at this stage the venture has accumulated certain level of operational experience and organizational knowledge, which allows it to formulate certain product or market strategies for competition (Porter, 1980). Further, to obtain competitive advantages in the market the venture needs to constantly revisit the original strategic mission and to adjust current plans based on its evaluation of external and internal environment. Therefore political strategy, if developed, will reflect the firm's strategic and operational mission.

Peng (2002) asserted that although typically there are three strategies for firm growth (namely, generic growth; merge and acquisitions, and network and alliances); the first two are not common to Chinese ventures due to the lack of capable managers and functional factor market. He found that Chinese ventures often take network and alliances for growth strategies. This is particular important when the venture expands beyond its home-based market. Research has indicated that regional protectionism, in which provincial and city authorities establish market entry barriers that are designed to support local enterprises, is a major problem in Chinese economy (Ahlstrom et al., 2000; Bai, Du, Tao & Tong, 2004; Lee, 1998; Poncet, 2005; Yeung, 2000). Local government which largely relies on local industries for tax revenues and own political interests, has strong incentives to support local companies in competition against non-local businesses. For example, ad hoc taxes and fees are typically set up for a non-local business in China (Bai et al., 2004). More importantly, in China the local government has so much discretion in formulating local policies and

regulations that the policies can be very idiosyncratic and nontransparent to entrepreneurs (ADB, 2003). To alleviate such adversity, private ventures need to take proactive political strategies to seek necessary information and establish good relations with the authorities in target markets. Especially for a venture penetrating other provincial or city markets in a large scale, obtaining support from the authorities in both local and the target market is necessary. Companies are found to use networking, information consultation and even financial incentives to support their market growth (Gao & Tian, 2006). I argue that the higher the level of market heterogeneity and complexity, the more urgent the firm needs to employ political strategies to alleviate these operational challenges. Therefore, I propose:

Proposition 2: During the emerging and growth stage, Chinese private ventures engage in political strategies to alleviate threats from market heterogeneity and market complexity. Typical approaches include networking and information consultation.

Mature Stage

A venture at mature stage often attains strong cash flows and but slower growth rate, however the firm may try to reorganize to capture and realize opportunities for new growth (Galbraith, 1982). Smith, Mitchell and Summer (1985) found that at this stage top managers are more concerned with maintaining current structure of relations. More specifically, these authors argue that at the mature stage the political concerns become more frequent than other stages and become the essential priority of top managers.

For Chinese private ventures, developing and maintaining political resources becomes critical at this stage. The exchange theory (Cook, 1977) predicts that firms engage in political strategies to seek reciprocal favors from the government. In China, under the arrangement of decentralized fiscal system, local economic and social development (particularly tax revenues and local employment) have been two critical criteria for evaluation of local government's achievements (Bai et al., 2004). Therefore a matured venture with steady cash flow can be very important in contributing local economic and social development. The central government tends to give local authorities broad guidelines that allow for much flexibility in implementation to reflect local conditions (ADB, 2003). The deviations from central policies enable private entrepreneurs to manage their dependence on local authorities while giving officials new sources of income that buttress their power within jurisdictions (Wank, 1996). A matured private venture, with increasing social legitimacy and economic power, is more able to exert influences on government policies using the existing political resources. In matter of fact, the lack of private property protection legal system urges the owners of private ventures to actively seek more political resources which they can rely on to protect their accumulated personal wealth (Nee, 1992). Therefore developing political

resources such as personal relationships with current or former government officials becomes more imperative than ever (Wank, 1996). A typical approach at this stage is direct political participation, such as being a member of government administrations, agencies, congresses, at both local and national level (Gao & Tian, 2006; Guiheux, 2006). As organizational structure is more formalized at this stage, inviting former or retired government officials to serve as board members or other positions is another way to develop political resources and to exchange favors. Another important approach is giving to charity (Ahlstrom et al., 2000). Unlike most developed countries where there is large scale presence of non-profit organizations, in China the charity giving is typically done through government agencies. In matter of fact to get more donations, the government often rewards private contributors with appointment to political councils, which in turn, enhances the social status and good relationship with the regulators (Ahlstrom et al., 2000; Ma & Parish, 2006). I argue that at the mature stage the relationships between private ventures and government authorities become more inter-dependent than any other stages. In summary, I propose:

Proposition 3: During the mature stage, Chinese private ventures engage in political strategies to strengthen business-government relationships and to exchange favors with the authorities. Typical approaches include direct political participation, financial incentives or other political-related strategy such as charity giving.

DISCUSSION AND CONCLUSION

Strategy scholars have long emphasized the “fit” between strategy and its external environment (Anderson & Zeithaml, 1984; Prescott, 1986). The environment-strategy co-alignment means that the firm’s strategy needs to be deployed to the specific requirements of its environmental context (Venkatraman & Prescott, 1990). Although this argument is typically applied to market strategy, applying it to non-market strategy is appropriate. The basic premise of this paper is that during its life cycle, a Chinese private venture exhibit different motivations, objectives and specific approaches as to its political strategies toward government. The choices of political strategies are largely determined by the external constraints they face and the internal organizational dominant problems they have for that particular stage.

I briefly reviewed theories that have been used for explaining corporation political strategy. Among these theories, I argue that the resource-dependence theory, institutional theory; strategic choice theory, exchange theory and the resource-based view all have merits in explaining Chinese private ventures’ political strategies. I propose a life-cycle model to explain the major drivers of political strategies at each developmental stage of the venture. I argue that at the startup stage the resource and legitimacy concerns propel Chinese ventures to engage in political strategies. Due to

its weak regulatory regime, underdeveloped factor market, widespread dysfunctional competition, and poorly protected property rights, Chinese transitional economy has been characterized as a hostile environment for entrepreneurs (Lukas, Tan & Hult, 2001). The environment is even more hostile to private ventures as they suffer from low level of legitimacy in Chinese society, which leads to their disadvantageous positions when competing against state-owned counterparties for critical resources. Unlike the Western firms where top managers are more concerned with political strategies or actions at the later stage of development (Smith et al., 1985), Chinese private entrepreneurs have to employ political strategies for founding resources from the very beginning. Enhancing organizational legitimacy therefore becomes the first priority of the venture at this particular stage.

I argue that at the emerging and growth stage, the heterogeneous market structures, the unequal developments of regional economies, and the widespread practices of local protectionism, are the major environmental constraints for private ventures. To alleviate negative impacts from this complex environment and strive for strategic competitiveness, private ventures choose political strategies to obtain necessary informational resources and administrative support for their product and market strategies. Alleviating market and administrative adversities to achieve operational excellence becomes the major driver of the venture's political strategy at this growth stage. Finally, the model proposes that when the venture grows to the mature stage, the power relationship between the firm and the government will change. As a mature business, the venture will have established a bundle of organizational resources and social capital (Coleman, 1988), including the relations with local authorities, which allows the venture to use as leverages in their political strategies. Local authorities, on the other hand, have to rely on successful private ventures for their support in regional economic and social development. I propose that at this stage a major driver of political strategy is developing and maintaining various forms of political resources with the authorities. This not only helps protect the owners' personal interests, but also provides the venture advantages in capturing new growth opportunities.

In conclusion, in this research I build a descriptive theory on Chinese private ventures' political strategies. By integrating multiple theoretical views, and applying an organizational life cycle approach, this research is among the first to study how Chinese private ventures' political strategies change over time. The model suggests that Chinese private ventures exhibit different motivations, objectives and typical approaches at different developmental stages. The research has several theoretical and managerial implications. First, the model implies that to better understand the political strategies of Chinese private ventures, multiple theoretical perspectives seem necessary. Second, the study enriches current literature of political strategies by extending attention to an important yet largely ignored area – private ventures in China's transitional economy. I propose that political strategies are essential to Chinese private entrepreneurial firms. Researchers in Chinese entrepreneurial firms should not overlook the role of political strategies in the process of entrepreneurship in China (Guiheux, 2006; Tan, 1996). Thirdly, the study highlights some of the

differences between Chinese ventures and Western firms in political strategies. I found that contrary to companies in developed countries, who may use non-market strategies as *optional* strategies at later developmental stage, Chinese private ventures *must* develop certain types of political strategies from the very beginning. Further, the study fills the gap in previous literature by examining the change of a firm's political strategy over time (Getz, 1997). To have a better understanding of firm political strategy, future studies need to take into account the contextual factors under which the firm's political strategies are developed. Practically, the proposed model informs entrepreneurs that to achieve sustainable competitiveness, a Chinese private venture must constantly evaluate its environmental and organizational environment, and develop the most appropriate political strategies toward the government. Nevertheless, the conceptual model awaits empirical validation when data is available. It is my hope that the study shed some light on the research of political strategy, and has provided valuable implications for Chinese private entrepreneurs as well as policy makers.

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